FEBRUARY 11, 1955 20 CENTS

U.S. News & World Report

The United States News ® World Report ®

WHY CHINA WILL NOT FIGHT U. S.

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"Don't Be Afraid of Prosperity"

—says

Wm. McChesney Martin, Jr.

Chairman, Board of Governors, The Federal Reserve System

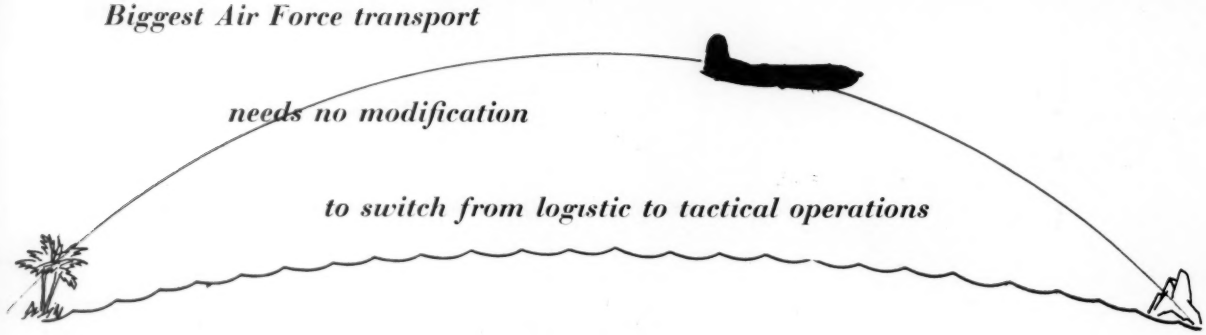
IN AN EXCLUSIVE INTERVIEW

No. 41 in a series:

Biggest Air Force transport

needs no modification

to switch from logistic to tactical operations



—the Douglas Globemaster

Now entering its fifth year of service to the nation, the Douglas Globemaster has proved its worth in all climates, all types of transport operation.

Combining speed and range with the stability needed for operation under all weather conditions and from varied ground facilities, Globemaster can stow 25 tons of cargo or accommodate 200 fully armed troops. Most important, its capacious interior can accept 98% of all military equipment without disassembly —even big cranes and ready-to-fly helicopters. On *performance*, the Douglas Globemaster is known in all theaters of operation as our most versatile military cargo-transport plane.

Performance of Globemaster under all conditions indicates Douglas aviation leadership. Versatility of operation is a basic rule of Douglas design.

Enlist to fly with the U. S. Air Force

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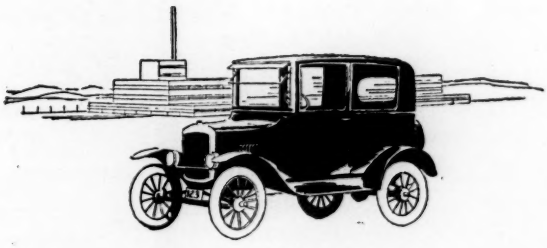


Would you equip your salesmen this way?

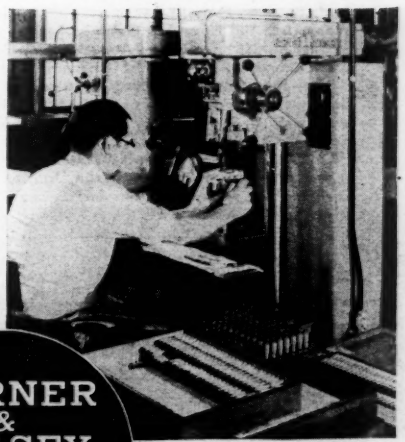
Maybe you have, with something just as outdated.

Many salesmen are expected to sell modern precision products made on old machines—55% of America's machine tools are 10 years old or more.

Take a walk through your plant and spot the antiques. They ought to be in museums. But they are trying to compete with new, high-speed, high-precision machines in your competitors' plants —machines that are cutting his costs, letting him reduce his prices or increase his quality or both.

Maybe *that's* where that lower sales figure stems from. Blame your machines, not your salesmen.

Statistics from American Machinist Inventory of Metalworking Production Equipment, 1953.



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YOU CAN PRODUCE IT BETTER, FASTER, FOR LESS WITH WARNER & SWASEY MACHINE TOOLS, TEXTILE MACHINERY, CONSTRUCTION MACHINERY

IN THIS ISSUE

★ Will Formosa Be Another Korea?

U. S. did fight Red China once. Five commanders tell, on page 35, why U. S. fell short of victory in Korea. Is Red China now looking for another war? See page 21. What is Mao Tse-tung up to? See the interview with his former colleague on page 40. And, for Nationalist China's story, turn to page 45. It's the whole Far Eastern picture.

★ Back of the Auto Boom

Detroit's factories are busy, turning out cars at a rate far above estimated sales. Why? Will there be a slowdown later in the year? For the answers, see page 26.

★ Was President Roosevelt a Conservative?

A new appraisal of the late President Roosevelt's political program is presented in the text of a speech by Senator Joseph C. O'Mahoney (Dem.), of Wyoming—page 82.

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WORLD REPORT

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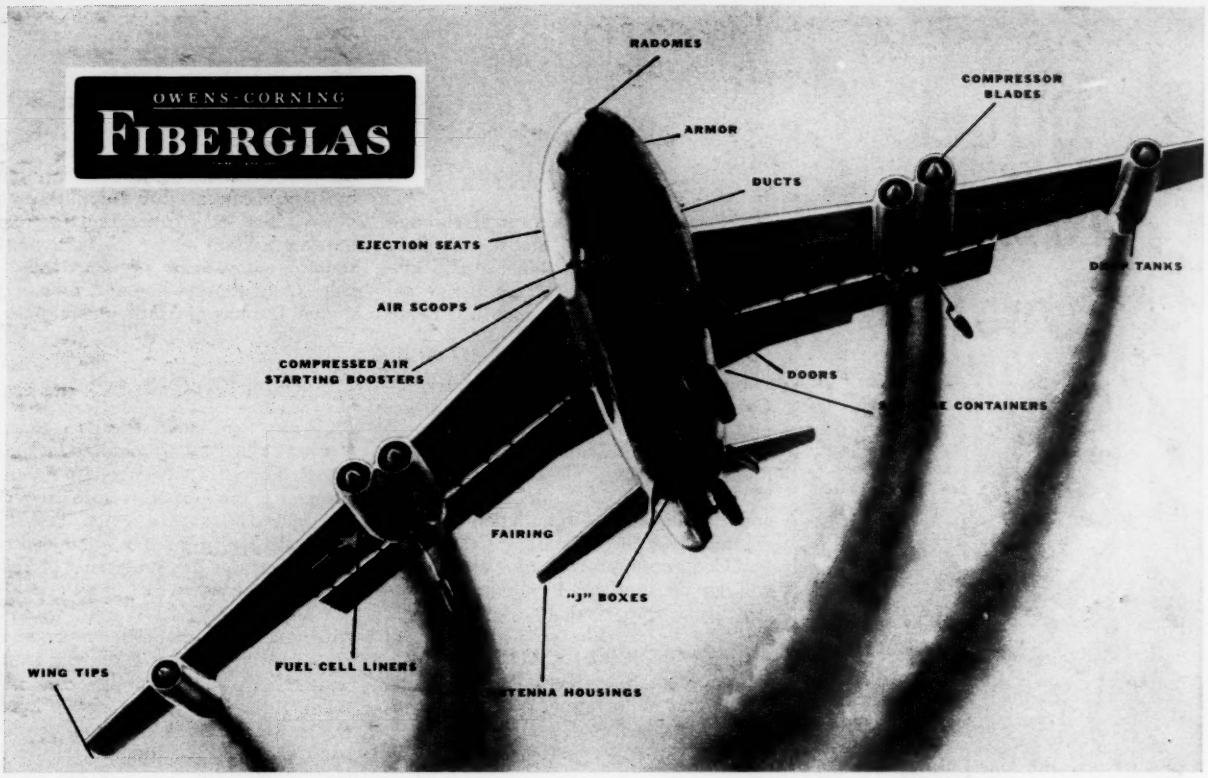

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The March of the News

RADAR NETWORK

As GIANT TORNADOES twisted through three Southern States, toppling homes and a rural schoolhouse and killing 29 persons, the Weather Bureau laid plans to lower the annual toll of death and destruction.

Mapped out is a network of radar stations to dot the Gulf and Atlantic Coasts and the Midwest, sending warnings about 12 hours in advance of approaching hurricanes and tornadoes. Radar equipment already is used in Washington, D. C., and in New York and Boston, and an installation is being readied at Cape Hatteras, N. C.

If Congress approves, radar stations also will go up in these locations: Brownsville, Tex.; Burrwood, La.; Chicago, Ill.; Daytona Beach, Fla.; Des Moines, Ia.; Miami, Fla.; Nantucket, Mass.; San Juan, Puerto Rico; Springfield, Mo.; Wichita, Kans.; and Wilmington, N. C.

K.P. FOR SCIENTISTS?

THE HOUSE ARMED SERVICES Committee wrestled with the problem of whether too many scientists and technicians are "peeling potatoes" in the Army. Selective Service Director Lewis B. Hershey thought not. He was opposed to any "escapist plan" for scientists, and asked: "Are any of you so lucky to escape housework when you become a member of the United States Congress?"

At issue was a plan by Representative Carl Hinshaw (Rep.), of California, to set up a presidential board to handle scientists' applications for exemption.

In the background of the discussion loomed some statistics: Russia now graduates 54,000 engineers each year; the United States, 22,000.

JOBS WANTED

PATRONAGE PLUMS, denied to Republicans for 20 long, Democratic years, were still proving hard to pluck after two years of Republican rule.

Members of the Senate Republican Policy Committee called in National Committee Chairman Leonard W. Hall to complain. The entire Republican House delegation from Pennsylvania was aroused; appointed a five-man patronage committee to seek action.

The special White House program to clear Government jobs through political channels, set up in June, was under fire. One official of the Republican National Committee estimated that, of 20,212 job vacancies reported to the Committee under the program, only 274 had been filled by Republican-sponsored applicants.

Civil Service qualifications were one monkey wrench in the works. Some jobs require many years of experience. Result: Only those who held federal jobs under Democratic Administrations can meet the requirements.

RULING ON BOXING

IN A SURPRISE move, the U. S. Supreme Court ruled that promoters of professional boxing are engaged in interstate commerce and are therefore subject to the Sherman Antitrust Act. Previously, the Court had ruled that organized baseball is outside the provisions of federal antimonopoly laws.

Chief Justice Earl Warren wrote that "over 25 per cent of the revenue from championship boxing is derived from interstate operations through the sale of radio, television and motion picture rights." In a parallel opinion, the Court held that the legitimate theater also comes under the Sherman Act.

LATTIMORE CASE

THE GOVERNMENT decided to appeal a January 18 decision by U. S. District Judge Luther W. Youngdahl quashing a new perjury indictment against Owen Lattimore.

Mr. Lattimore, an expert on the Far East, was accused by the Justice Department of lying when he denied he had ever been a follower of the Communist line or a promoter of Communist interests.

Judge Youngdahl ruled that the charges against Mr. Lattimore were "formless and obscure." The U. S. Court of Appeals is being asked to reverse that decision. Five counts of an earlier indictment still are pending.

MORE RED HOGS?

AMERICAN HOGS looked good to Nikita S. Khrushchev, First Secretary of the Soviet Communist Party's Central Committee. In Moscow, he told a meeting of the Committee that the U. S. corn-hog economy was worthy of emulation.

By growing corn for fodder, the Soviet boss conceded, "Americans have succeeded in achieving a high level of animal husbandry." Russian planners were urged to increase Soviet corn production eightfold by 1960. The result, Mr. Khrushchev said, would be to double the amount of pork available to consumers.

Teletypewriter Service helps Pullman play host to 50,000 guests

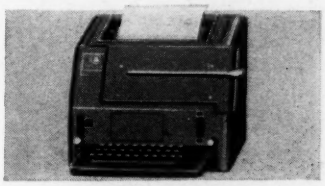
It takes real organization to play host to 50,000 travelers every night — and good *communications* are needed for this nationwide job.

The Pullman Company has found that Bell System service is the answer to its communications problems. From a Message Center in Chicago, a private line teletypewriter network reaches out over 9000 miles, affording direct contact with 57 outlying offices.

This puts speed into hundreds of routine chores. It enables Pullman to give the public smooth service—saves expense in transferring material, operating cars, restoring lost valuables. A tool gets to the shop quicker. A repair goes faster.

"More efficient management of our business is an advantage of the system," a Pullman official says "... in addition to being more economical."

Bell System can improve efficiency, save you money. Just call your Bell telephone representative for more information.



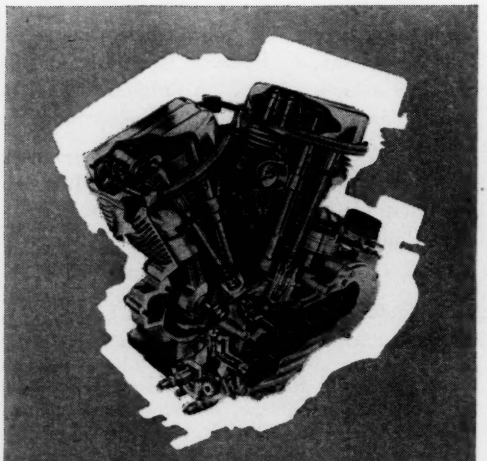
How messages are speeded

- A 9000-mile nationwide teletypewriter hookup of 9 intercity circuits connects the Chicago Message Center with 57 stations in 46 cities.
- Chicago is the nerve center of the network. Circuits radiate to secondary relay centers in Philadelphia, Atlanta, St. Louis and San Francisco.
- Semi-automatic tape relay equipment is used to speed messages between switching centers and outlying stations.

BELL TELEPHONE SYSTEM

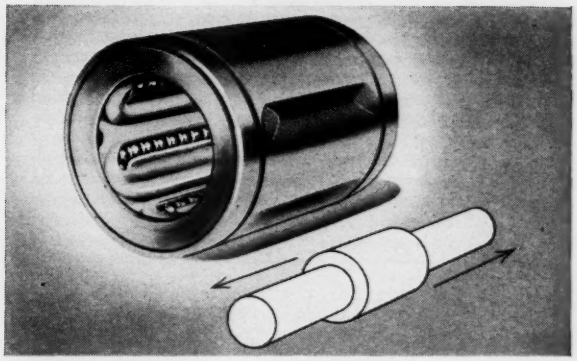
TELEPHONE TELETYPEWRITER MOBILE RADIO TELEMETERING AND REMOTE CONTROL CHANNELS

Have you overlooked the big reason for using alloy steels?



When horsepower was increased on the Harley-Davidson motorcycle from 30 to 55, company engineers were faced with designing a transmission that could take the tremendous impact and stress. Republic metallurgists suggested Republic's 8617 Alloy Steel. The result was: reduction of section; good heat treating and carburizing properties; *more horsepower from the same size transmission.*

PAINT REALLY ADHERES to Republic Electro Paintlok sheets. And rust is shut out. That's why these National Biscuit Company truck bodies are made of this zinc-plated steel sheet that's chemically treated to take paints, lacquers, synthetic enamels — and hold them for years. Tight zinc coating guards against underfilm corrosion and creeping rust. Manufacturers of everything from truck bodies to caskets have found production costs go down when they use these special sheets that hold paint longer and make products look better.



ELECTRUNITE CARBON STEEL MECHANICAL TUBING makes some products possible (like this ball bushing for linear motion by Thomson Industries). Problem here was close-tolerance tubing to house bearings and raceway, plus tough wear by bearings at contact points. Republic ELECTRUNITE Tubing supplied all these advantages along with good surface conditions; good dimensional control, both I.D. and O.D.; uniform wall thickness; uniform concentricity; uniformity to withstand heat treating.

A lot of people are under the impression that alloy steels are used only to get certain necessary properties. Heat-treating qualities, for example. Extra fatigue strength. High impact value. High shear resistance. Or many other reasons.

But analysis will show that alloy steels also save money.

There is no better reason for using them. In fact, we don't recommend them unless they do save money, somewhere along the line.

It's just a matter of how much money you want to save. And you save the maximum when you design parts and process properly for alloy steels. That's where we come into the picture. Our 3-D metallurgical service will help you get the properties you want in your products if your engineers and our metallurgists put their heads together.

Let's talk things over now before the competition steps out ahead. A call to your nearest Republic district sales office will get things under way. Have your secretary do it, soon.

REPUBLIC STEEL

World's Widest Range of Standard Steels and Steel Products

FREEDOM FROM RUST and corrosion makes any product made of Enduro Stainless Steel a good buy. Good example is laundry equipment. Made of stainless steel, it resists rust, corrosion and the action of most washing compounds and detergents. It's easy to keep clean and attractive. And because of resistance to wear, equipment cost can be written off quickly. Republic, pioneer in stainless steel, shows manufacturers how to use it profitably.

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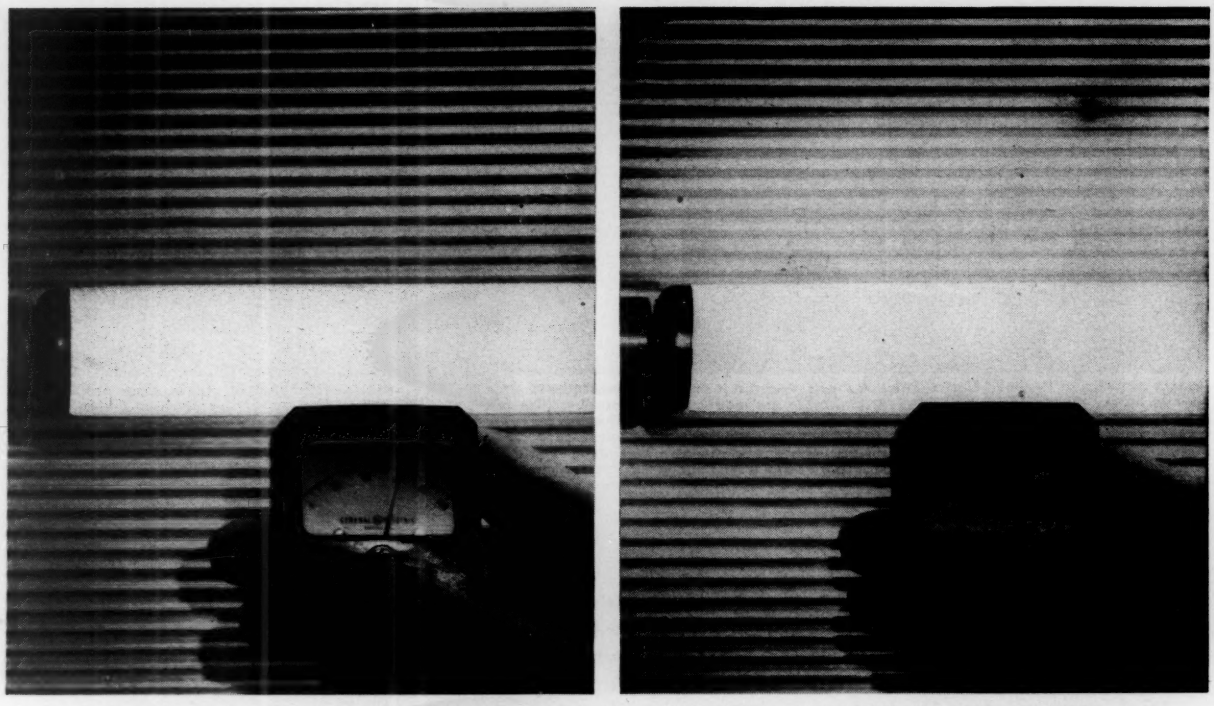

Regular slimline, left, gives 620 units of light. New High Output Rapid Start lamp, right, gives 840 units of light.

NEW GENERAL ELECTRIC FLUORESCENT LAMP GIVES ⅓ MORE LIGHT THAN ANY PREVIOUS FLUORESCENT

LIGHTS ALMOST INSTANTLY—General Electric announces the most important advance in fluorescent lighting in 10 years: the new High Output Rapid Start fluorescent lamp. The 96-inch High Output lamp gives 36% more light than the most powerful G-E fluorescent lamp previously available.

For new installations, General Electric High Output lamps offer this ⅓ bonus of light without increasing the number of fixtures or maintenance costs.

This big increase in light, with no increase in lamp size, has been achieved through a special cathode developed by General Electric which permits a boost in lamp wattage to 100. Because the cathode is of the famous General Electric triple coil design, these Rapid Start lamps light up almost instantly. General Electric High Output lamps have a rated life of 7,500 hours, the same as all General Electric general lighting fluorescent lamps.

A new G-E base and socket design protects the lamp contacts by recessing them. A simple push-pull sets the lamp in its fixtures.

HAS VARIETY OF USES

The new General Electric High Output fluorescent lamp is especially suited for use in areas with high ceilings, in factories, warehouses, offices and stores. Also in store windows, showcases and other places where you want higher lighting levels in keeping with the modern trend. New fixtures designed for the G-E High Output lamp will soon be available from a number of lighting fixture manufacturers.

For information, write to Lamp Division, General Electric Company, Dept. 166-U-2, Nela Park, Cleveland 12, Ohio.

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A LOOK AHEAD

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War with Communist China is about the last thing to expect.

Loud talk, threats, snarls, backstage maneuvers are the things to look for. Shooting, if interspersed, will largely be for stage effect.

Communists know from experience that U.S. will pay a good price for a period of peace and quiet. Just now they're out to cash in again.

Tachen islands, being given up, are of much importance. Communists gain from that move. Quemoy, Matsu, not being given up yet, are for trading if talks are held. Communists can be quite confident of getting them later.

Formosa is longer range--5, 10 or even 20 years.

Chiang Kai-shek, aged 67, will not last forever. Chiang's Army, now aged 29, grows older year by year. With hope of success fading, defections will be harder to prevent as the years go by. Americans tend to be impatient, impulsive, and may tire of their police job. A month to them is a long time.

Time and patience figure importantly in the Communist game in Asia.

The latest flare-up already has paid off handsomely for Communists.

Chiang Kai-shek now is formally bottled up. Communists are assured that he will not be helped to stage a comeback. Communist shipping is given assurances against future harassment by Chiang's Navy. Blockade by U.S. is crossed off. Communists also are given some more island real estate.

A conference now will be drummed up. In a conference, U.S. usually loses its shirt as allies gang up to maneuver more concessions for Communists.

It's all a strange kind of game for most Americans.

War talks, plus strike threats, are affecting business just now.

Businessmen, aware that any price changes are more likely to be upward than downward, are ordering more freely, adding a bit to inventories.

Inventory buying, even moderate, has a strong bolstering effect.

Business trends, just now, are rather powerfully upward. The rise, well along, will continue until summer. Summer slowing, very probably, will be followed by a renewed rise in the autumn.

Steel output, up sharply, is tied to prospect of a price rise. Wage increases, apparently coming, will be passed on in price. War scares, too, encourage steel users to rebuild stocks, to play it safe.

Auto-output boom is tied partly to threats of a strike, partly to making sure that dealers have cars on hand to meet any spring demand. Autos, being turned out now at an 8.5-million annual rate, will be forced to cut back later.

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Strike would cut output. No strike will mean a planned cut before summer.

Wage raises, another round, seem to be in the cards again. Raises, where made, will probably be held in the range of 5 to 10 cents.

Higher pay will mean more income to spend, stronger retail trade.

Annual wage, in very limited form, may be coming up in autos. It's the alternative to a probable strike. Strikes in autos and steel, more probably than not, will be avoided this year. Workers, with income high and living costs stable, are hardly in a mood to take a long strike.

Everything points to a good year for both business and workers.

Trade, in fact, is tending to boom. Department stores in January did nearly 10 per cent more business than a year ago. Men's-suit sales are up 6 per cent. Shoe business is good. People are buying heavily of necessities.

Auto sales, at the same time, are high. Appliances are, too.

Profit prospects, in most lines of business, are favorable--better than last year, when they were excellent. There aren't many sour notes.

Credit use, however, is being watched closely by Government planners.

Tighter credit, moves to limit the supply of money a little, to make borrowing a bit less easy, a bit more expensive are to be looked for.

Installment terms, quite probably, will be somewhat easier later in the year than they now are. Mortgage terms, too, will probably become a little stiffer. The official view is that borrowing is a little too easy now.

"Harder money," though, is not planned. Money is to be kept relatively abundant, relatively cheap. Goal is prosperity without inflation.

Stock-market rise definitely is under close watch. Speculation in stocks, whenever regarded as excessive, will meet official resistance.

Prices that reflect real investor demand, that reflect higher earnings or improving prospects will not be viewed with disfavor. Price rises that reflect speculation tied to tipster-type advice, unrelated to anything very fundamental, will be looked on with some disfavor. Official desire is to keep down exuberance, to avoid too much of a gambling fervor.

Chances are that the bull market in 1955 will be quite selective.

Draft law definitely is to be extended, probably for four years.

Older men, getting caught in the draft, are unlikely to get relief from the law as it is extended. Scientist students, young scientists are unlikely to get specific relief either. It will be left up to local draft boards.

Drafted men will continue to serve two years. Ike's Reserve plan, opening the way to six months of active service for some youths, appears blocked.

Youths apparently are to be required in the future, as now, to plan their lives around the draft, to take their chances.

Uranium is beginning to come out of U.S. ears. Bomb stockpile of U.S. is being estimated at a minimum of 10,000 of assorted sizes.

Uranium abundance is adding to pressure for more use of atomic power in industry; is raising some question about the boom in uranium securities.

Raw material for atomic energy no longer is scarce or very secret.

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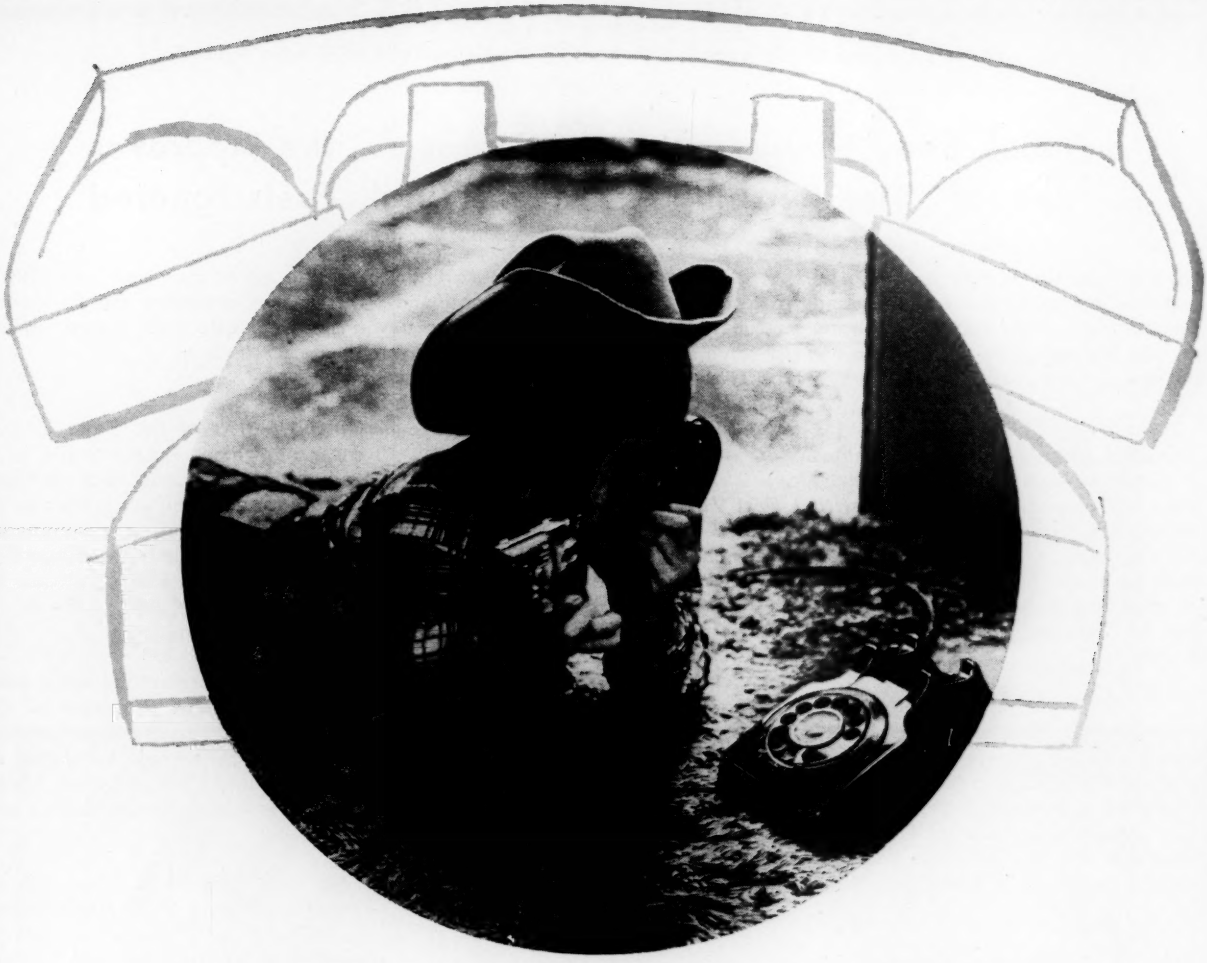
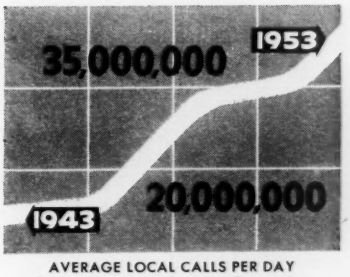


As American as cowboys 'n Indians

That's the spirit of enterprise that sparks the Independent Telephone Industry!



AVERAGE LOCAL CALLS PER DAY
for Independent Telephone Companies

Enterprise . . . initiative . . . woven into our way of life, and into the spirit of Independents! Throughout forty-seven states, Hawaii, Alaska and Puerto Rico, Independent Telephone Companies have spun their lines—adding nine million telephones to the nation's total. Their stake in first-rate telephone service is big—more than 1½ billion dollars. *Doubled* in the past ten years. Continuing to grow under our American system of reward to the enterprising.

USITA

• *Telephone instrument in photograph above manufactured by The North Electric Manufacturing Company, Galion, Ohio.*

United States Independent Telephone Association

Pennsylvania Building : Washington, D. C.

Washington Whispers®

[Items appearing on this page are reported in Washington and other news centers]

Dulles Sees New Trouble in Europe . . . Ike Approves Idea of "Hot Pursuit" . . . "Taft Wing" Feels Ignored

Orders from the President to American military forces in the area around Formosa are to fire only if fired upon by the Communists. Americans are not out looking for a fight.

★ ★ ★

President Eisenhower has let leaders in Congress know that, if Communist planes do choose to start a battle with Americans, the Americans will be free to pursue the Communists to their bases and will have the privilege of attacking those bases. This privilege of "hot pursuit" was denied in Korea.

★ ★ ★

John Foster Dulles, Secretary of State, and his aides expect that the next world trouble spots, after Formosa quiets down, will be Berlin and the Scandinavian area. There are signs that the Russians have plans for stirring things up in Europe.

★ ★ ★

The White House told leaders in Congress of a "timetable" of moves planned by Chinese Communists for this year to attack islands around Formosa. American naval and air strength was moved in shortly before the first Communist moves were to be made.

★ ★ ★

Clement Attlee, former Prime Minister of Great Britain, who had much to do with shaping rules that prevented Americans from winning the war in Korea, is doing what he can now to help Communist China to get the island of Formosa.

★ ★ ★

India's Jawaharlal Nehru is pressing the big powers to hold a conference with the Chinese Communists in New Delhi to try to make some kind of deal to settle the problem of the future of Formosa.

V. K. Krishna Menon, India's chief delegate to the United Nations, and strongly anti-American, is in line to become Foreign Minister of the Nehru Government. Mr. Menon, in the United Nations, often has sided with the Communists.

★ ★ ★

Carl Vinson, chairman of the House Armed Services Committee, is being credited by Democrats with drawing the first political blood in a tussle with the Administration. Mr. Vinson forced into the open the fact that Mr. Eisenhower personally decided on new cuts in the Army over objections of the Army Staff Chief.

★ ★ ★

Gen. Matthew Ridgway, Army Staff Chief, is a hero to that service for the way he stuck by his guns in insisting that manpower cuts are weakening the Army more than he considers desirable.

★ ★ ★

Senator Joseph McCarthy is being urged by friends to enter presidential-preference primaries in 1956 to test the extent of his popular support. The Wisconsin Republican is showing interest in this suggestion.

★ ★ ★

The big television chains now have as much influence as party leaders in deciding when and where to hold political conventions. Democrats and Republicans each discovered that, in planning for the 1956 nominating conventions, they had to make arrangements with television companies before they decided anything else. That's an important cause of the delay in final arrangements.

★ ★ ★

Paul Butler, Chairman of the Democratic National Committee, had the idea of suggesting, through press-conference questions, that the White House was censoring the President's answers to questions before putting them on television.

★ ★ ★

Official papers of the Yalta Conference, at which Russia made great gains, have been sent back to Great Britain for a second going over by Sir Winston Churchill before being made public. These papers, scheduled for publication months ago, still are being kicked around and censored.

★ ★ ★

Fred Seaton, former Nebraska Senator and Assistant Secretary of Defense, will act as the No. 1 trouble shooter for Sherman Adams in the White House. Mr. Seaton's duties will cover a wide range of problems.

★ ★ ★

Brig. Gen. Charles A. Lindbergh occasionally meets with White House aides to discuss technical problems related to military aircraft. General Lindbergh, still publicity shy, prefers to meet these officials in hotel lobbies rather than in the White House. It was this aversion to the limelight that is credited with causing the General to turn down an important job offered him by the President.

★ ★ ★

President Eisenhower has told friends that he feels it was very bad manners for some Democratic members of Congress to rush bills to the Senate and House for aid to education before the President had a chance to offer his own plan.

★ ★ ★

The so-called "Taft wing" of the Republican Party is increasingly irritated by the fact that it is being left out in the cold when patronage jobs are passed out by the Administration.

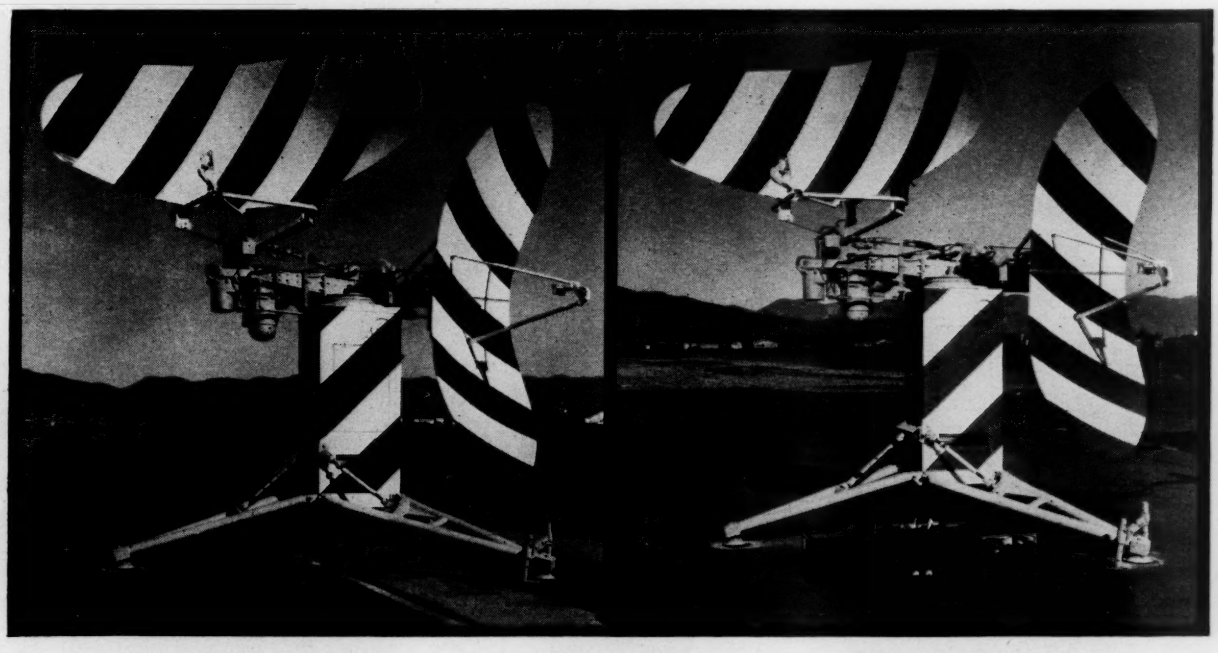
New higher power GCA **QUADRADAR** unveiled by Gilfillan

Two Models Now Meet Complete Range of Air Traffic Problems

Over two hundred international aviation visitors to the successful demonstrations of the 50 kw. GCA Quadradar during November and December 1954 in Los Angeles were also shown a completely new higher power 200 kw. Quadradar.

The 50 kw. Quadradar in field demonstrations and during the U. S. Air Force and U. S. Army operational evaluation tests now under completion exceeded both military and civil airport requirements. Now the 200 kw. Quadradar provides even greater performance capabilities with 40% increased range and altitude coverage over the 50 kw. equipment.

Both the 50 kw. and the 200 kw. Quadradar have complete remoting controls and instant multiple runway coverage.



50 kw. Quadradar operated perfectly during several recent California rainstorms. Successfully tracked F-86 jet fighters beyond 30 miles and above 20,000 ft. Both 50 kw. and 200 kw. models (at right) include proven circular polarization to eliminate rain and snow clutter.

GCA RADAR AND ELECTRONICS
Gilfillan
LOS ANGELES
GCA
AROUND THE WORLD

200 kw. Quadradar provides 40% additional coverage in range and altitude. Both models are identical except for three small components — transmitter, receiver and high voltage power supply — as shown. These 3 components quickly plug in to replace the 50 kw. components.

You're No Bird Dog!

. . . if you want more business
from the field of new construction
you need

Dodge Reports

You can't track down prospects that don't exist! In the field of new construction there must be a *need* for your product or service—and you must *know* about it—before a sale can be made.

When that need does exist *Dodge* knows about it—tells *you* about it in clear, concise, day-by-day reports!

These reports—scouted by a staff of over 1000 trained field men—cover any project in any territory within the 37 Eastern States. They tell you the man to see, when and where to see him, what his requirements are—and other important details you must know to sell the job.

So why leave your new business prospects up to chance? You'll save time, save money, save manpower—and have a more profitable, more efficient sales operation right down the line when you use Dodge Reports!

Let us *prove* how Dodge Reports can serve you in your own territory. Send coupon today!

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DODGE REPORTS TAKE THE FIRST STEP IN EVERY SALE

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Construction News Division
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Timely, accurate, construction news service in the 37 Eastern States

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New York 18, New York.

Please let me see some typical Dodge Reports on current selling opportunities in my marketing area.

Name.....

Company.....

Address.....

"AN EXAMPLE OF AMERICAN PRIVATE ENTERPRISE PROVIDING LEADERSHIP IN LOWERING THE COST OF DOING BUSINESS IN THE VIGOROUS CONSTRUCTION SEGMENT OF OUR NATIONAL ECONOMY."

PEOPLE ★ ★ ★

OF THE WEEK

› JOHN MARSHALL HARLAN is running into difficulty in the Senate, which must confirm or reject his nomination as an Associate Justice of the U. S. Supreme Court. His name has been submitted twice by President Eisenhower, once last November, again early in January shortly after the new Congress convened. So far, the only action by the Senate Judiciary Committee is to schedule the beginnings of hearings on February 23.

A New York lawyer, Mr. Harlan now is a judge on the Second U. S. Circuit Court of Appeals in New York, a judgeship to which Mr. Eisenhower appointed him a year ago. He had not been on the bench previously.

Several letters of protest have been written to the Committee about Judge Harlan. One complaint is that he got part of his education in England, as a Rhodes scholar at Oxford. Another complaint is that he has been on the advisory council of Atlantic Union Committee, Inc., since November, 1952. The Committee, headed by Owen J. Roberts, a former Supreme Court Justice, is promoting a federation of countries in the North Atlantic Treaty Organization. Its advisory council has 600 members.

Probably the biggest roadblock in Judge Harlan's way stems from the Supreme Court's decision to delay arguments on integrating white and Negro schools in the South until the vacancy on the court is filled. This suits some Southern legislators. If Judge Harlan's confirmation can be delayed, so can the decision on mixed schooling.

› THOMAS E. MURRAY, only remaining member of the Atomic Energy Commission to have been appointed by President Truman, brought into the open last week evidence of long-reported friction among AEC members.

Appearing before the Joint Congressional Committee on Atomic Energy, Mr. Murray told the lawmakers he thought the AEC contract for private power, to be supplied via the Tennessee Valley Authority, ought to be canceled. He said he voted to sign the contract last year because he thought that would settle the issue, but now, he says, it is still a drain on the AEC's time and effort.

The AEC Chairman, Lewis L. Strauss, promptly confirmed the evidence of friction. He wants to keep the contract and says that atomic-weapons output is clicking along at high speed, notwithstanding any dispute in AEC.

What evolves now is a deadlock on the Commission, arising over a variety of controversial matters. Mr. Murray is on one side, Mr. Strauss on the other. Both are strong-minded men who made fortunes, Mr. Murray as an inventor and industrialist, Mr. Strauss as an investment banker. Dr. Willard F. Libby, a scientist on the AEC, is taking no part in politically controversial decisions. Dr. John von Neumann has not been confirmed as a Commissioner, and the fifth seat on the AEC is vacant.

› ADM. FELIX B. STUMP, as U. S. Commander in Chief in the Pacific, has a command roughly equivalent to that held during World War II by Gen. Douglas

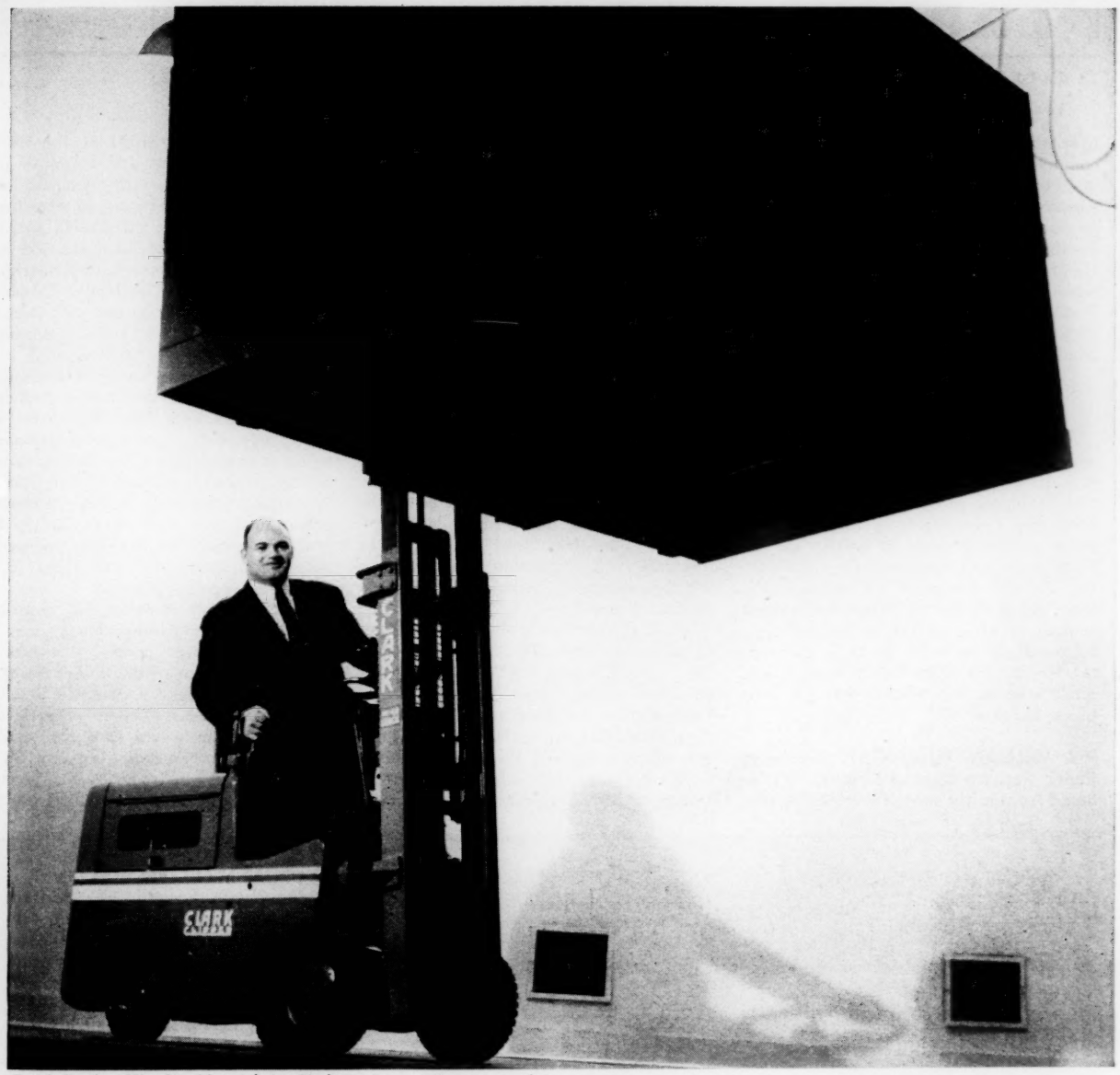
(*Continued on page 18*)

IKE'S TELEVISED NEWS CONFERENCES: HERE TO STAY

–USN&WR Photo

› WHITE HOUSE CORRESPONDENTS find things are changing at President Eisenhower's news conferences. In general, Presidents have permitted only indirect quotation. Now the conference is filmed and recorded. All of it can be reported indirectly; in addition, parts selected by the White House are released for direct quotation in the press, for playback on radio and for exhibition by television broadcasters.

At the second filmed conference last week, two newsmen suggested the selection process amounts to censorship. Mr. Eisenhower disagreed. Press Secretary James C. Hagerty says release of selections will continue.



R. H. Davies, Vice-President of the Clark Equipment Company, asks:

"Do you know this famous weight lifter?"

"You've seen these mechanical muscle men all over the country," says R. H. Davies. "Clark builds them to lift up to 13 tons at a clip!

"When Kansas City was hit by a recent flood, most of their fork trucks were damaged. Clark dealers are among the best equipped in the country. But when ten or fifteen companies needed replacement parts—and *fast*—the demand was unprecedented! We shipped carburetors, distributors and other essentials by Air Express from our Jackson, Mich. service headquarters — and they arrived the same day!

"Our sixty dealers coast to coast know its speed and reliability. We average 5,000 pounds a month by Air Express.

"What's more, most of our shipments *cost less* by Air Express. For instance, a 25-lb. shipment by Air Express from Jackson, Mich. to Kansas City costs us $6.45 — that's $3.50 less than by any other air service."

Air Express

GETS THERE FIRST *via U.S. Scheduled Airlines*

CALL AIR EXPRESS . . . *division of* **RAILWAY EXPRESS AGENCY**

MacArthur. Except for the Far East command, covering Japan and Korea, his "beat" is the whole Pacific, from Alaska to Indo-China. Army and Air forces in the Pacific, as well as the whole Pacific Fleet, are under his direction. His headquarters are at Pearl Harbor, but last week he was on the scene in Formosa, making sure U. S. air and sea forces deployed there are ready for trouble, if it comes.

The Admiral's view, after an inspection: "Everything seems to be in fine shape."

Admiral Stump is a lean, lithe man with a piercing look in his eye. In World War II, he commanded the aircraft carrier *Lexington* in several Pacific battles. After the *Lexington* was torpedoed, he led a carrier division in battles for the Philippines and Okinawa. He took over the Pacific command 18 months ago from Adm. Arthur W. Radford, caused something of a sensation last summer by revealing his order to U. S. pilots in the Pacific: Be quick on the trigger, and don't wait to shoot until you get your block knocked off.

› **J. WILLIAM FULBRIGHT,** Democrat, junior Senator from Arkansas, will be heard from in the next few weeks by men who make a living in Wall Street. He is going to look into activities of the stock market, as head of the Senate Banking and Currency Committee.

Questionnaires already are in the mail to about 5,000 bankers, brokers, Government officials and others with special knowledge of investment. Senator Fulbright calls the forthcoming look-see at the market a "study" rather than an investigation. It is to be the first inspection of market activities by Congress in more than 20 years.

Senator Fulbright, a lawyer, received a degree from Oxford University, where he was a Rhodes scholar. Later he was president of the University of Arkansas. In 1945, after he had been elected to the Senate following one term as a Representative, he was considered for the presidency of Columbia University, a job that eventually went to Gen. Dwight D. Eisenhower.

When Republicans won control of Congress in 1946, Mr. Fulbright irked President Truman by suggesting the President resign. Later the Senator's investigation of the Reconstruction Finance Corporation laid groundwork upon which Republicans charged there was a "mess in Washington." Nevertheless, he offered to support Mr. Truman if he ran in 1952.

› **RUSSIA'S NEW MAN** at the United Nations is giving his first full-scale performance in the Security Council over the Formosa issue, trying to edge Communist China into the U. N., get the United States out of Formosa. The new performer for Communism, **Arkady A. Sobolev,** officially is deputy leader of the Soviet delegation, but has been in full charge since Andrei Y. Vishinsky's death.

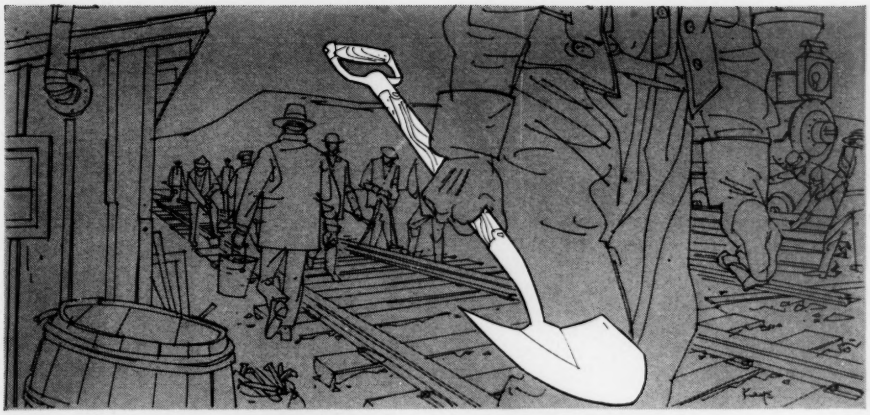
Mr. Sobolev's methods of work surprise most observers who watched Vishinsky so long. Mr. Vishinsky was caustically witty, sometimes humorous, often thumped the table in either real or feigned angry indignation. Mr. Sobolev is quiet, reserved, looks somewhat schoolmasterish. Last week, in the Security Council, he put his engineering mind to a speech accusing the U. S. of aggression against China.

The quiet Mr. Sobolev, 52 years old, is a newcomer to diplomacy, was an electrical engineer until 1939. After a start as counselor of the Soviet Embassy in London, he was a delegate to U. N. Charter conferences, chief political adviser to Soviet forces in occupied Germany, later became an Assistant Secretary General of the U. N. Western diplomats regard him as a dangerous foe.

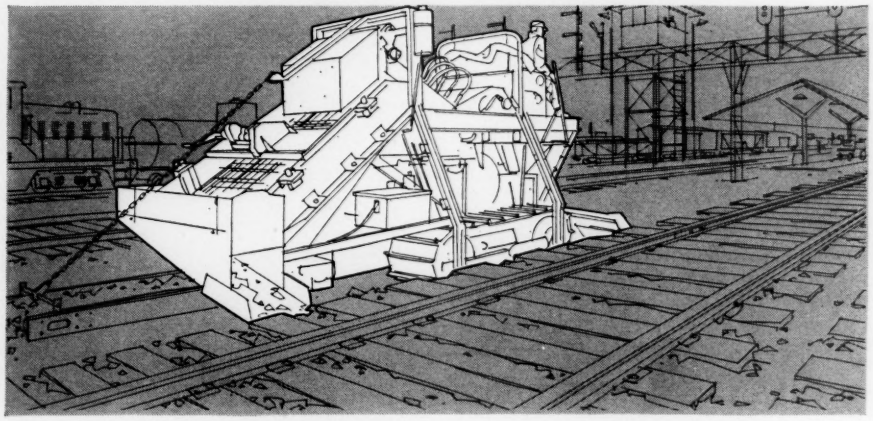
—United Press

› **PRIME MINISTERS** of the British Commonwealth met in London last week with the threat of Asian war uppermost in their minds. Sir Winston Churchill (seated, center), of Britain, presided over a diverse group.

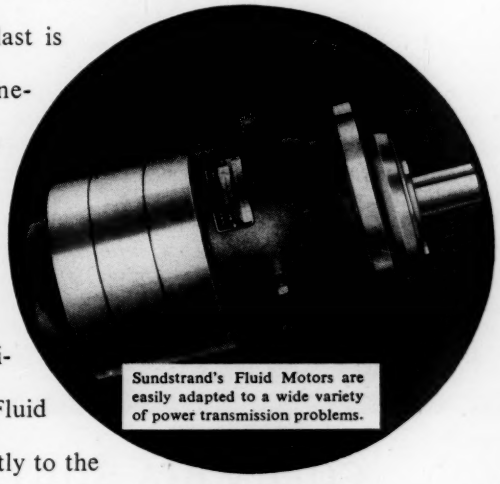
Sidney G. Holland (seated, left), of New Zealand, and Robert G. Menzies (seated, second from right), of Australia, support the U. S. as allies in Asia. Louis St. Laurent (seated, second from left), of Canada, refuses to recognize Communist China. Jawaharlal Nehru (seated, right), of India, soon is to make a trip to Moscow. Charles R. Swart (standing, left), Deputy Prime Minister of South Africa, represents a nation threatening to leave the Commonwealth. Mohammed Ali (standing, second from left), of Pakistan, is a stanch U. S. ally. Sir John Kotelawala (standing, second from right), of Ceylon, soon will visit Peiping. Sir Godfrey Huggins (standing, right), of the Central African Federation, hopes to attract U. S. investment to his country.



Ballast without blisters



Ballast was a bugbear to the gangs that blistered and sweat along the rails. But look who's working on the railroad now! Machines like the one above dig up ballast, shake out the dirt, convey the dirt off the roadbed. The clean ballast is then mechanically replaced. One-man operation, too! This is one of several phases of railroading to which Sundstrand contributes . . . in this case, through the hydraulic branch of its eight divisions, by means of Sundstrand Fluid Motors transmitting power directly to the wheels. Sundstrand's "Engineered Production Service*" operates in many important fields to help bring costs *down*, production *up*. Perhaps Sundstrand is a name to remember in *your* business, too.



Sundstrand's Fluid Motors are easily adapted to a wide variety of power transmission problems.

*Fifty Years of "Engineered Production" Service**

SUNDSTRAND

A name to remember in your business!

MACHINE TOOL DIVISION—Lathes, Milling Machines, Special Machinery, Centering Machines, Bench Centers, Balancing Tools.

BROACHING DIVISION—Standard and Special Broaching Machines, Tools, Work-holding Fixtures.

AVIATION DIVISION—Constant Speed Hydraulic Drives, "Rota-Roll" Pumps.

FUEL UNIT DIVISION—Pumps used by the nation's leading oil burner manufacturers.

INDUSTRIAL DIVISION—Hydraulic Transmissions, Pumps, Control Valves, Fluid Motors.

PNEUMATIC DIVISION—Air Sanders for Automotive, Woodworking, Metalworking and Plastics Industries.

FOUNDRY DIVISION — Gray Iron Castings for Sundstrand and other manufacturers.

MAGNETIC PRODUCTS DIVISION — Tool Room and Production Chucks, Magnetic Fixtures, Lifting Magnets, Chip and Coolant Separators.

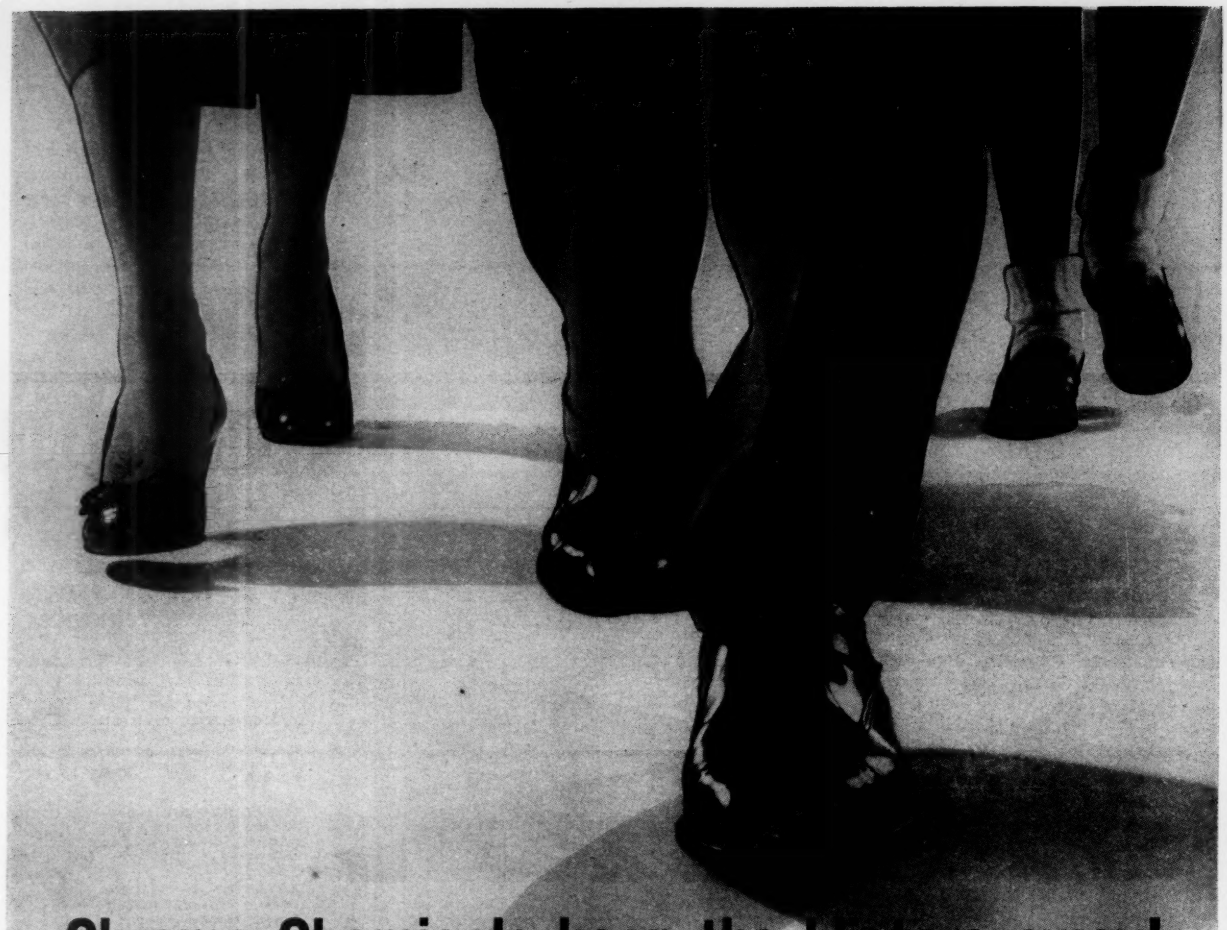
Sundstrand engineers have worked with leaders in American industry, in many fields, for half a century. Benefit by Sundstrand's *reliable* research, *expert* engineering, *precision* production. Write for story:

SUNDSTRAND MACHINE TOOL CO.

ROCKFORD, ILLINOIS

American Broach & Machine Company
Ann Arbor, Michigan

*REG. U. S. PAT. OFF.



Chrome Chemicals keep the blisters away!

Ever notice how the leather in your shoes "gives" when you wiggle your toes? That soft, soothing foot freedom can be attributed to tanning. And, more specifically, the pliability of the upper portion is achieved through mineral tanning, usually with chrome chemicals. Without this treatment, your shoes would be stiff and unyielding, and mighty irritating to your feet.

The conversion of animal hides to leather dates back to antiquity. Skins were sun-dried and rubbed with salt. But it was not until some genius discovered the effect of tree bark solutions that a really satisfactory tanning process was developed. This vegetable tanning provided the first permanent protection against decay. It continues in use today and is still preferred for such heavy leathers as shoe soles where toughness and resistance to abrasion are more important factors than flexibility.

Today, chrome tanning is by far the most popular method of producing leather for articles such as shoe uppers, jackets, gloves and handbags. Chrome leathers are soft, pliable, long wearing, resistant to heat—and the tanning process is more rapid.

Columbia-Southern, a leading producer of chlorine, alkalies and related chemicals, also supplies chrome chemicals from a plant devoted exclusively to their manufacture which is located at Jersey City, New Jersey.

COLUMBIA-SOUTHERN
CHEMICAL CORPORATION
SUBSIDIARY OF PITTSBURGH PLATE GLASS COMPANY
ONE GATEWAY CENTER · PITTSBURGH 22 · PENNSYLVANIA

CHLORINE, ALKALIES AND RELATED CHEMICALS • OFFICES IN PRINCIPAL CITIES

WHY CHINA WILL NOT FIGHT U.S.

Without War She Stands to Gain . . . With It She Stands to Lose

War threats, voiced by Red China, are not expected to end in war with U. S. Reason—

Risk of destruction is too great. Wraps will be off the next time. Mainland of China will be blasted from three sides.

Extra hazards appear, too. There's chance of a two-front war, invasion of the mainland, complete defeat of the Peiping regime.

Talk offers better results. With bluster and patience, Chinese stand to win islands, end a blockade, get assurance against invasion by Nationalists, wear down Chiang.

Result: Communists expect to end up with Formosa, but not by war with U. S.

Reported from
TAIPEI and WASHINGTON

A simple weighing of facts convinces U. S. military officials that, when the chips are down, Chinese Communists will not go to war with the United States. The weight of these facts, not the tough talk on the surface, is expected to determine the balance between war and peace.

War with the United States, the Communists are aware, involves at least a gamble with destruction and defeat—with no real hope for victory. Pressure and patience, coupled with occasional negotiations, offer the Communists their only prospect of immediate gain, and at least the hope of eventual victory.

The prospect for actual war involving U. S., as a result, is considered small.

● Immediate gains, to be had by the Communists through negotiation, are real. These gains, weighed against the risks involved in war, are expected not to be overlooked by the Chinese.

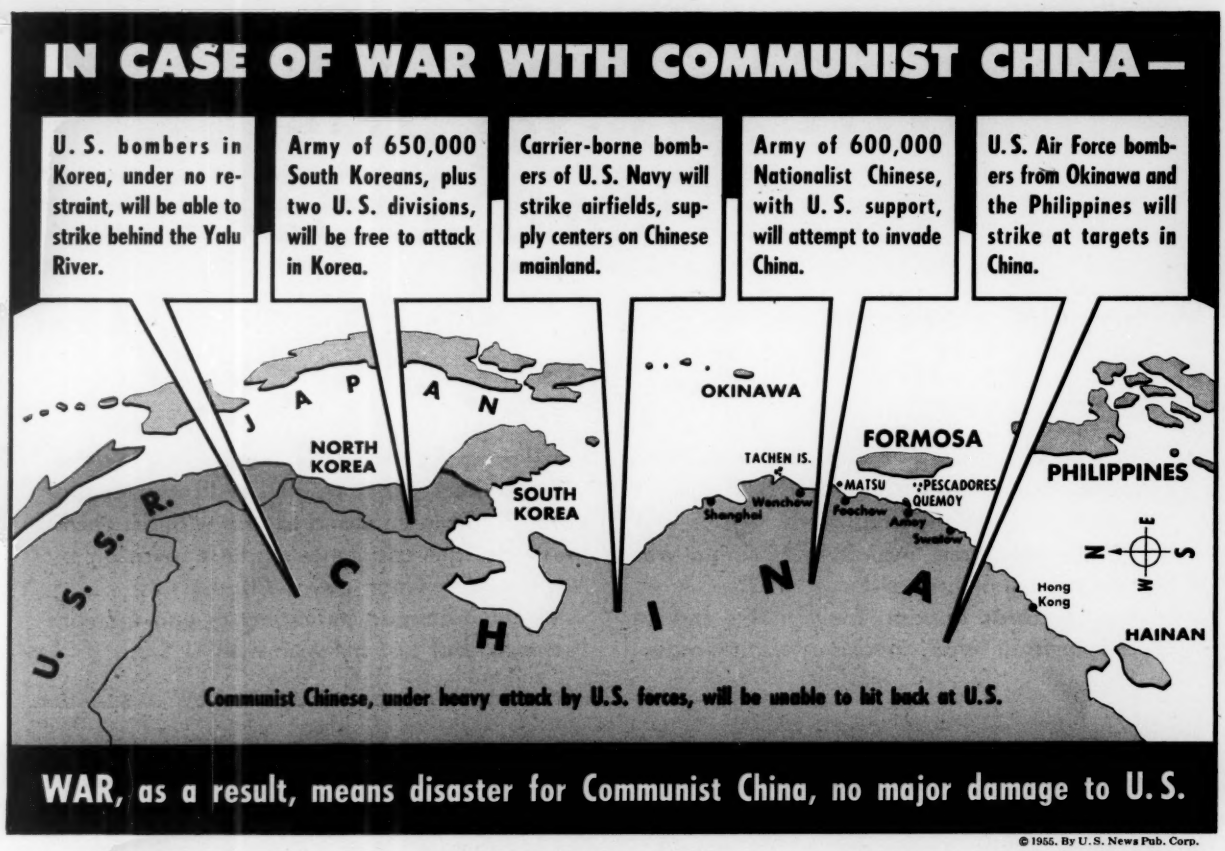
Tachens: donated. The Tachen islands can be had by the Communists without a fight, as matters stand. In Communist hands, the Tachens pretty much block the threat of successful invasion of mainland China by Chiang Kai-shek and his Nationalist forces. Large numbers of Red troops now guarding this invasion shore line can be redeployed to other areas.

Blockade: ended. Once the Tachens are given up, forays by the Chinese Nationalist Navy against ships headed for Communist-held Shanghai will be largely ended. The Communists in China, hard pressed for goods from the outside world,

—Dorman H. Smith, NEA Service, Inc.
"THE ONLY PEACE MOVEMENT HE UNDERSTANDS"

—Werner in the Indianapolis Star
"NO LONGER A STEPPINGSTONE"

—Holland in the Chicago Tribune
"NOT QUITE READY TO TAKE THE PLUNGE"


IN CASE OF WAR WITH COMMUNIST CHINA—
U. S. bombers in Korea, under no restraint, will be able to strike behind the Yalu River.
Army of 650,000 South Koreans, plus two U. S. divisions, will be free to attack in Korea.
Carrier-borne bombers of U. S. Navy will strike airfields, supply centers on Chinese mainland.
Army of 600,000 Nationalist Chinese, with U. S. support, will attempt to invade China.
U. S. Air Force bombers from Okinawa and the Philippines will strike at targets in China.
JAPAN
NORTH KOREA
SOUTH KOREA
OKINAWA
TACHEN IS.
FORMOSA
MATSU
PESCADORES
QUEMOY
Wenchow
Shanghai
Foochow
Amoy
Swatow
PHILIPPINES
Hong Kong
HAINAN
U.S.S.R.
CHINA
Communist Chinese, under heavy attack by U.S. forces, will be unable to hit back at U.S.
WAR, as a result, means disaster for Communist China, no major damage to U.S.

© 1955, By U. S. News Pub. Corp.

have been hurt by ship seizures carried out by this blockade fleet. Much of that annoyance will be stopped when the Tachens change hands.

Chiang Kai-shek: leashed. Americans, holding the balance of military power in the Formosa area, in effect are telling the Communists that Chiang Kai-shek and his troops will be bottled up in Formosa, the Pescadores and maybe Quemoy and Matsu. There is tacit assurance that Chiang will be put on a leash.

These are regarded by U. S. officials as very real immediate gains to be had by the Communists.

● Longer-range gains, not talked about so much, also are regarded as going with a Communist acceptance of a policy of pressure and patience.

Attrition. Time, in the Formosa area, is on the side of the Communists. Anti-Communist forces on Formosa are growing older year by year. Chiang Kai-shek, now 67, will not live forever. Denied the right to try for a comeback on the mainland, the Nationalists—as time passes—will lose hope as well as strength. To the U. S., policing waters around Formosa, the job eventually may become onerous and seem not worth while. To Communists in China, a wait of 10 or 20 years involves little strain.

Defection. Chinese soldiers on Formosa, isolated from homes and families, will become restive if convinced that they never are to get back to China. Mainland Communists even now are stepping up propaganda broadcasts to exploit this opening. Chiang's soldiers are told that all will be forgiven if they will come home. The story is told of a future in China, of hopelessness on Formosa.

Concession. The American Government appears to be itching to open talks with China's Communists. Talks, by their very nature, involve concessions by those who seek the talks. The least that Communists can expect to gain is title to Quemoy and Matsu, islands just outside the ports of Amoy and Foochow. Out of talks, too, can come the basis for admission of Red China to the United Nations and the isolation of Chiang Kai-shek.

Possession. A deal, being denied now, remains probable for the long run, and will relate to the future of Formosa itself. The concept of "two Chinas" is one suggestion, made by the British and carrying some important American support. United Nations trusteeship for Formosa is another suggestion. A plebiscite is the suggestion of an outstanding British politician, one that could change ownership of the island.

Communists will agree to none of these things openly. Nor is any actual agreement likely in the period ahead. Instead, pressure of every kind is to be kept up by Communists in the expectation of acquiring effective ownership of Formosa and the Pescadores by indirection or by default.

Pressure—diplomatic and military—coupled with patience, in other words, is regarded as making sense as the basic Communist policy, despite the surface bluff and bluster, even despite localized fighting. The chance for reward from this policy appears bright.

● Now look at the alternative—war involving the United States. Hazards of war against the U. S., with no restrictions upon the use of American power, are great enough to promise disaster for Communist China, with great damage certain and defeat likely.

Risk 1: destruction. Devastating blows, this time, will strike China itself. President Eisenhower, in talks with members of Congress, has made it clear that, in any future war with China, Americans will not be denied the right to hit back

—Department of Defense

SOUTH KOREAN TROOPS: WELL-TRAINED, WELL-EQUIPPED, EAGER TO REUNITE KOREA

Any war started by Red China might erupt on two fronts

at the enemy's homeland, the way they were denied in Korea.

Communist China, as a result, will be hurt in a hurry if fighting should start. Red China's Air Force, with no industry to replace it, can be destroyed. So can her supply centers, her ports, her center of Government.

Bomber attacks, in war involving U. S., will hit Red China from several directions and could include atomic attacks. U. S. bombers in Korea, their old restraints removed, will be able to strike behind the Yalu. Carrier-based bombers can strike from positions just off the China coast. Big "strategic" bombers can blast away at the Chinese mainland from U. S. bases on Okinawa, the Philippines, Japan, even Guam.

Risk 2: double war. A two-front war could follow, with the armies of Syngman Rhee turned loose to strike the Communist Chinese in Korea, while other battles rage around Formosa. Red China's forces already have openly violated the truce agreement in Korea. U. S., its forces attacked around Formosa, could justifiably unleash and support the 20-division South Korean Army—now well trained, well equipped, eager to clash with Communist forces and reunite Korea.

The Korean campaign, in this case, will be fought with the old restraints off, with no "privileged sanctuary" and no limitations on weapons used.

Risk 3: invasion. Restraints could be removed from Chiang's Army, too, once an attack on Formosa is broken up. The Chinese Nationalist Army, 600,000 men and 24 divisions strong, is existing for the day when it can storm ashore, attempt to liberate the mainland of China from Communist control. With U. S. sea and air support, that attempt could inflict serious damage on Communist forces, conceivably could rally support away from Peiping and go on to win.

Strength of U. S. and allied forces in this part of the world, now considerable, gives added weight to the threat of disaster to Communist China.

There are nearly 2,000 U. S. Air Force planes in the potential war area. Jet-fighter and fighter-bomber wings are based within easy striking range of the Chinese mainland. Big B-36 atomic bombers are on nearby Guam. In addition, Marines have an air wing of combat jets in Japan. And five or six major U. S. aircraft carriers are in the area, with about 500 more fast fighters and bombers.

Power of the U. S. Seventh Fleet is here, too, with a wide variety of atomic weapons, missiles, rockets and naval artillery ready to be turned loose.

Ground combat units of five American fighting divisions, plus two regiments, are standing by in this area, backed by more than a million Asian troops of the Nationalist and South Korean armies.

Communist China, faced by these risks in any war against the U. S., cannot ward off destruction by attacking the United States. There is no way for her to reach this country. Her air bases nearest to U. S. industrial centers are from 8,000 to 10,000 miles away. She has no real Navy.

On balance, then, the outlook is this: No war, and Red China gets immediate concessions plus a good chance of gaining Formosa by attrition. War with U. S., and the Peiping regime loses its chance to take Formosa, faces disaster in the process. Result: Communist China is expected to stop short of actual war with U. S. in its efforts to get Formosa.

Importance of the Tachens, page 24. Appraisals of the war danger: by President Eisenhower, page 31; by a former top Chinese Communist, page 40. A Supreme Court Justice who offers his solution, page 78. An on-the-spot report from Formosa, page 112.

Another Prize for the Communists

The Tachens: Chiang's Hope of Comeback Fades

Here is the real story of the Tachen islands, the ones the U. S. will not help to defend.

Without them Chiang is bottled up on Formosa. He needs them to get back on the mainland.

Communists, taking the Tachens, can shut the door to invasion. They get security, not just a pirates' nest. It's a Red gain.

TAIPEI, Formosa

If and when the Tachen islands, about which you are reading and hearing so much, are firmly in Communist hands, it will mean these things:

- Chiang Kai-shek's Nationalists then will be pinned down on Formosa.
- The Communists will have new and effective assurances that no anti-Communist enemy will be in a position to invade the mainland.
- Some 60,000 of the Communists' best troops, now guarding the coast opposite the Tachens, will be free for new adventures.
- Anti-Communist blockade of the China coast will be weak and ineffective.
- Intelligence reports on Chinese Communist activities on the mainland will be less frequent, less reliable.

All this is based on the fact that the Tachen islands, in Chiang's control, are a foot in the front door of Communist China. Opposite the Tachens a broad plain leads to the Yangtze Valley and the populous heart of China.

This door to Communist China closes once Chiang, under U. S. pressure and with help from the U. S. Navy, evacuates his forces from the Tachens. Communists, taking over, get real security.

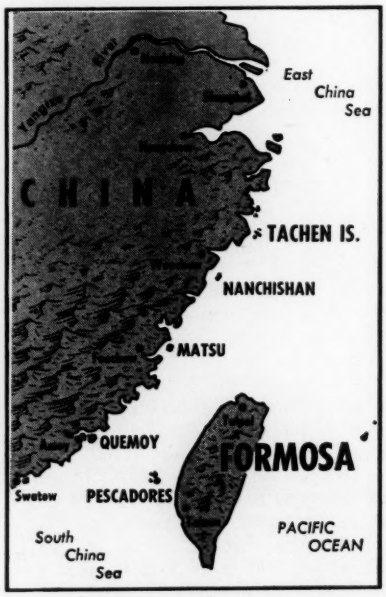
As territory, the Tachens do not amount to much. In the group are two major islands, Upper Tachen and Lower Tachen; also half a dozen smaller islands and scores of tiny islets.

Upper Tachen is about 3½ miles long and 2 miles wide, a rocky island as barren of vegetation as a slag heap. It is riddled with a labyrinth of caves, cells, corridors, gun emplacements and elaborately equipped command and communications centers—the work of Nationalist troops who made it their military headquarters for the area. Sheer cliffs protect most of the shore line. A Nationalist garrison of more than 10,000 men kept food, ammunition and water enough for a month in storage caves.

Lower Tachen, a mile away, is a longer, narrower, but more fertile island. Nearly 8,000 islanders are packed into a tiny town over a narrow bay. In the hills behind the town are the emerald patches of truck gardens, mainly of cabbages and sweet potatoes, nestled in terraces built up by hand.

Natives helped. The people of the Tachens have been a real asset to Chiang's forces in recent years. These island Chinese, some 15,000 of them, are mainly fishermen and farmers, officially. For generations past, however, their economy has been based on other work—smuggling, exacting tribute from passing junks, piracy, coastal raiding, even wrecking. These are accepted and traditional activities for island Chinese.

These islanders, as a result, know coastal waters and the coast itself very well indeed. They had built up an elaborate intelligence system of their own long before modern wars swept these coasts, a system with agents in every port and most of the river cities of the mainland.



THE STRATEGIC TACHENS
. . . key to the invasion of China

The Tachens and their people have been a part of Nationalist China since the Japanese left after World War II. When the Communists drove Chiang's forces off the mainland of China in 1950, the Reds made no immediate effort to seize the Tachens.

Chiang's dream ever since he was forced off the mainland has been to go back, to reconquer the mainland sooner or later, with or without U. S. support. Possession of the Tachens has been a vital part of his plans for the future.

The coast opposite the Tachens is a part of Chekiang Province, where Chiang Kai-shek was born. He has more secret supporters and more potential followers in that province than in others.

Invasion route. A landing on the Chekiang coast, as the map on this page shows, opens the way into the broad, meandering valley of the Yangtze. Invaders could outflank the Communist defenses of Shanghai, could open their ranks to volunteers in one of the most populous areas of the world.

Out of the Tachens, the Nationalists conducted night raids on the mainland. Their raiders gathered information on Communist troop movements which was of value to the U. S. in the Korean war. Nationalist gunboats operating from the Tachens halted Shanghai-bound freighters.

To the Communists, possession of the Tachens is a means of securing the mainland against attack at its most vital point. Small Communist garrisons on these islands will enable the Communist command to release about 60,000 crack troops, perhaps to put pressure on Southeast Asia. Defense in the Tachens area would be left to 120,000 regional troops.

Under the Communists, radar stations on the Tachens will keep watch on the U. S. Seventh Fleet as well as U. S. planes, carrier based and land based, operating in the area. Shipping bound for Communist ports on the mainland no longer will be forced to give the Tachens a wide berth. Chiang's information on the activities of the Communists on the mainland will dry up.

Fading hope. Major factor in the loss of the Tachens to the Communists, however, may be the blow to the morale of the Chinese Nationalists, the fact that the door to Communist China, kept open a crack by Chiang's possession of the Tachens, now is closing.

SUPER ALLOYS DEMAND SUPER-VISION

Ryan must peer deep into the "heart" of the high temperature alloys used in the production of aviation's most advanced heat engines. Quarter-million volt X-rays, which can "see" through 4½ inches of steel... ultra-violet radiation... powerful magnetic fields—these are the "eyes" used to insure that these precision-built structures are internally sound. Working with 69 different alloys, Ryan's production department is virtually a laboratory-controlled operation where science and skill merge.

Another Example of How

RYAN BUILDS BETTER

Ryan's unique abilities for meeting difficult production problems are exemplified in the field of high temperature metallurgy. Here, Ryan's specialized knowledge creates parts which "live longer" in the seething infernos of jet engines, rocket motors, afterburners and exhaust systems. Advanced metallurgical research provides Ryan with intimate knowledge of the nature and behavior of even the newest, least understood super alloys. Through close integration between laboratory and factory, this knowledge becomes a basic part of aircraft production know-how.

For 32 years Ryan has been a leader in aircraft and component manufacture and design ... and by doing more, because it understands more, Ryan continues to contribute materially to America's air superiority.

AIRCRAFT & COMPONENTS	AIRBORNE ELECTRONICS EQUIPMENT	RYAN	AFTERBURNERS & JET COMPONENTS	PILOTLESS JET AIRCRAFT
METALLURGICAL ENGINEERING	WEAPONS SYSTEMS		ROCKET MOTORS & RAM JETS	AIRCRAFT EXHAUST & DUCTING SYSTEMS

BACK OF THE AUTO BOOM

Big Demand, Strike Threats, Sharp Battle for Sales

Optimism is still standard equipment among the producers of automobiles.

Turning out cars at the rate of 8.5 million a year, makers expect 1955 to set a near record in sales. They concede a strike or sudden downturn is possible. But they hope to avoid both.

Right now most cars are selling well in a hotly competitive market. Big Three and Little Three are battling it out.

DETROIT

The auto industry is off to a booming start for 1955. With production at 8.5 million passenger cars a year, manufacturers plan to keep close to this rate through the first quarter, at least. Yet the industry's most optimistic estimates are for sales of no more than 6 million cars.

This situation of booming output far in excess of estimated sales is raising lots of questions here in Detroit and elsewhere. Are cars being stockpiled for fear of a strike? Are factories building up for the usual heavy spring selling season? Is competition forcing the high rate of output? Is the industry heading for a sharp letdown later in the year?

A partial answer to all of these questions is "yes." Strike talk is widespread in this automotive center. Large sales are expected in the spring. Competition is being accepted rather matter-of-factly as a battle for survival. No producer expects as many cars to be made in the second half of the year as during the first half.

Strong optimism. Yet Detroit is surprisingly confident of good business through the year. Manufacturers are hopeful of avoiding a crippling strike. They expect prompt sales of cars now being turned out. They say that a cut in production, probably starting in April, will be nothing more than the usual seasonal pattern. They are inclined to discount the grumbling of dealers over new-car "bootlegging" and stiff price competition.

The basic reason for Detroit's presently high production is the emphasis being put on volume. All manufacturers are aiming at higher sales this year. Ford and General Motors are locked in a struggle for leadership in the low-priced field. Chrysler is determined to recapture the share of the market lost in last year's competition. Chrysler expects its line of Plymouth cars to nudge General Motors' Buick out of third place.

The so-called "independents," now known as the Little Three, not only are battling each other but have their eyes on a larger market than the 4 per cent of total sales they got last year. Members of this group—Kaiser-Willys, Studebaker-Packard, Hudson-Nash—agree that a 4 per cent share is not large enough to keep them all in business.

Output may slow. Cold statistics on the auto industry indicate that the present production pace cannot keep on. Something approaching the output rate of 8.5 million passenger cars a year is expected to hold till April. But, if the industry's estimate of 6 million sales for the year proves correct, production from April on is likely to average some 40 per cent below the current rate.

This prospect doesn't faze producers. They point out that, except for years of unusual boom, the selling season for autos usually slackens off after July 1. So they plan rather low production during the summer months, with a pickup later in the year as new models again are introduced. It is also noted that market estimates by the industry in recent years have been below the volume actually sold. That may happen again this year.

Meanwhile, new-car sales by dealers are exceptional for this time of year. December sales posted a record for the month. January sales ran below December, but were well above January, 1954. Most dealers report a generally good market, with sales often ahead of factory deliveries. Factories say there is very little stock building above normal.

Price cutting. But dealers are objecting to pressure applied from the factories to step up sales. They complain that this leads to price cutting, competition from "bootleggers" and vanishing profits.

The principal methods of price cutting is to give "overallowances" on used cars

—USN&WR Photo

when they are traded in. One suburban Ford dealer near San Francisco offered $500 over Blue Book value on a trade-in. A Buick dealer in the same area let it be known that he would knock $600 off the list price of a new car.

In Detroit, producers admit that discounting is widespread among dealers, but they are inclined to believe that most reports are exaggerated. The general opinion here is that discounts for cars in the low-price range run from $200 to $400, while the apparent discount may go $500 or higher. The difference comes in what the trade calls "price packing"—the practice of putting extras and other charges in the retail price of the car.

Many dealers, for example, are increasing their handling and delivery charges to customers. Others recoup some of the discount by loading up cars with extras, on which they make substantial profits. On an average sale, a new car normally has $300 in extras. Most of these costs are for automatic transmissions, radios and heaters.

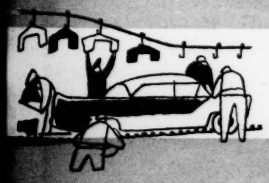
Manufacturers tend to shrug off dealer complaints. They say overallowances and discounts are common sales practices, the normal response to competition. A good deal of discounting, in fact, is calculated by both producers and dealers. From the manufacturer's view, discounting is a means of promoting sales and the successful dealer will make up in volume what he shaves from the price of individual cars.

—Ford Motor Co.

AUTO ENGINES ARE ASSEMBLED
Nearly every producer expects a near-record year

The "bootleg" market. "Bootlegging," so called, is said to be flourishing this year as it was in 1954. This is the practice of selling new cars at cut prices through used-car dealers or other dealers who do not hold factory franchises. Such a dealer is, in effect, a discount house for the automobile industry. Suppliers of the "bootleg" market are regular dealers who find themselves overloaded with cars.

There has been no solution to this problem as yet. General Motors has offered to buy back unsold cars from dealers, but no other manufacturer has



Passenger-car output rate now:

8.5 million a year

Passenger-car sales in 1955:

estimated at 6 million

THE PROBLEM:

Find a market for 2.5 million more cars than industry now expects to sell, or *cut the production rate by about 40 per cent in the last 9 months of the year.*

© 1955, By U. S. News Pub. Corp.

—USN&WR Photo

IN MIDWINTER: PLENTY OF BUYERS
Sales are exceptional for this season

followed this lead. Dealers themselves are skeptical. They fear that if they turned back too many cars they would lose their standing with the factory. Also, dealers would make no profit on the turnback, whereas they usually make a slight gain when selling a new car to a used-car dealer.

In general, auto companies point out that, although competition is fierce, a lot of cars are getting sold and they expect to sell considerably more in the months ahead.

A strike issue. The industry outlook, however, is clouded by a strike threat from the United Auto Workers. The union wants a guaranteed annual wage and has indicated that it is willing to strike over the issue. Detroit executives think that, if this threat is carried out, one company—probably Ford—will be selected as a target.

But leaders in the industry by no means regard a strike as inevitable. Most auto executives think there is a 50-50 chance of avoiding a walkout, while a few others feel fairly sure that a strike will be averted because "nobody can afford it." These executives also say, privately, that they think the workers will settle for something far less than a firm guarantee of a year's pay.

When it comes to discussing the annual wage, industry officials are cautious, but they are not rejecting the idea. What is mentioned, unofficially and in general terms, is some form of minimum-work guarantee for veteran employes of five to 10 years. There is no public indication that any manufacturer will consent to an annual wage, but rumors throughout Detroit suggest that some form of compromise well may be reached to avoid a strike.

Little Three's bid. The plight of the smaller manufacturers in the competitive struggle is attracting as much interest in the industry as the demands of labor. These companies right now are seeking to enlarge their market with as much vigor as the Big Three—General Motors, Ford and Chrysler.

In the Studebaker-Packard Corporation, Packard reports substantial sales success with its new "torsion-balance ride," a new type of spring design said to provide easier riding. Studebaker came out a second time in the season with a new line of cars. The aim of this firm is to sell 200,000 Studebakers, against 75,000 last year, and 100,000 Packards, against 40,000 last year.

American Motors, combining Nash and Hudson, seems to be concentrating on the Nash Rambler, a small car. The reported goal is to get acceptance for the Rambler as a second car for the American family. Some in Detroit estimate that before long 50 per cent of American homes will have two cars, against an estimated 14 per cent now.

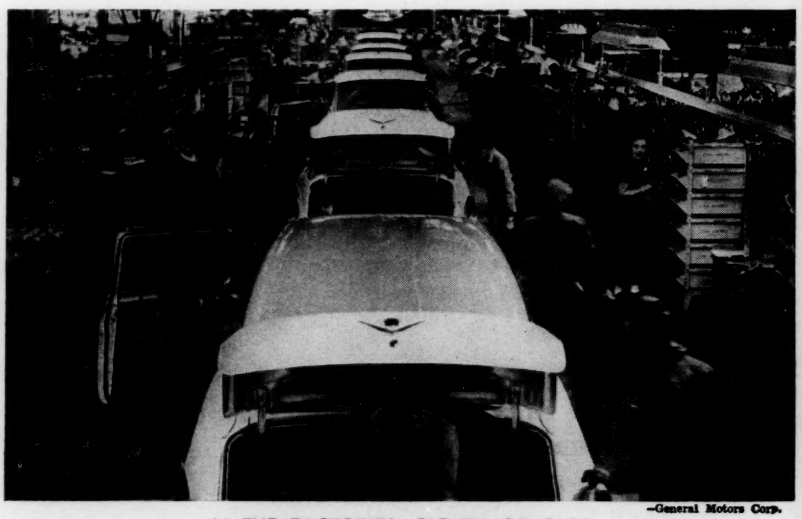
Meanwhile, American Motors seeks to push production to between 180,000 and 200,000 cars a year, from the 136,000 estimated for 1954. Other new models for Nash and Hudson are to be introduced in February.

The other smaller producer, Kaiser-Willys, appears to be concentrating on utility vehicles, for which considerable demand is reported. Output of conventional passenger cars by this firm is quite small at present.

General opinion in Detroit is that still more mergers probably are in the offing to permit the smaller producers to compete on more even terms with the large firms. However, no merger is immediately in sight and none seems likely until sales of 1955 models are tested. At the moment, the smaller companies are producing about 6 per cent of the total, against 4 per cent in 1954.

The competitive struggle inside the industry, however, is not expected to damage the over-all market for cars. Nearly every producer expects 1955 to be a near-record year in total sales of autos of all makes.

Why one major auto firm is launching a mammoth stock issue—page 114.



—General Motors Corp.

IN THE FACTORIES: PLENTY OF CARS
Cold statistics indicate the pace can't continue

To the businessman who knows *his own product* is good...

You practice rigid quality control for the product you make—*does that always hold true for the products you buy?*

Take, as an example, a product you buy plenty of but may not have thought a lot about—the towels in your company washrooms. There's a way to check their efficiency—a way to measure what you're getting as well as what you're paying.

There can be a very unbusinesslike difference between what you pay and what you get

Only by determining rate of consumption can you get a true measure of towel costs. It is not the initial price of a case of towels but the rate of use that is important.

Because fewer Scottissue Towels are needed to dry (one easily dries both hands), the consumption is lower and cost per case is lower in the long run.

The quality of a towel shows up in a use-test

The proof of a towel is in the drying. The better the ability to dry, the lower the consumption. Here, the fast absorbency and wet-strength of a Scottissue Towel show to great advantage. One dries two hands, dries them completely. And though made double-fold for strength, a Scottissue Towel is soft enough to be used as a face cloth.

What your employees prefer is important too!

It has often been said that company morale is the result of many small things. There is no reason to think, therefore, that morale stops at the washroom door. Scott is the brand your employees buy most often for their homes—the brand they spend their own money for. It proves they know something about quality and economy too.

Test Scottissue Towels yourself—prove their quality

The best way to evaluate Scottissue Towels is to prove them against the towels you use now. Your local Scott representative will show you a simple consumption test that can result in substantial savings. Scott also has a "Planned Poster Program" which will do much to cut consumption and promote cleanliness in your washrooms. This program can be yours without obligation—write to Scott Washroom Service, Dept. US-1, Chester, Pa.

It's good business to use

SCOTTISSUE® **TOWELS**

Reg. U.S. Pat. Off.

Why the Fuss About the Army

Ike Wants to Cut It—Chief of Staff Doesn't

Decision on whether the Army should take a big cut, up before Congress now, is bringing on a major policy debate.

Basic arguments are centering on Administration plans to rely more on Allied troops, big Reserves, new weapons, less overhead.

Controversy is swirling around a decision to cut back the size of the armed forces. The cutback, this time, centers on the Army.

On the one side, President Eisenhower and his top civilians concerned with defense present their case for the cut. On the other, Gen. Matthew B. Ridgway, Army Chief of Staff, and his top military planners present opposing arguments.

Here, in essence, are the arguments, being presented now behind the scenes, for and against plans linked to the cut.

Plan—Use more allied manpower, let U. S. concentrate on weapons.

• **Eisenhower position:** U. S. should concentrate its defense effort on aircraft, missiles, ships, new weapons, other things in which it excels—should not try to supply large amounts of scarce manpower to defend areas which can better afford to put up the manpower themselves. Native-army forces should be increased in both Europe and Asia, cutting the need for U. S. riflemen to be sent to areas with large allied populations.

• **Ridgway position:** In fulfilling commitments abroad, U. S. cannot afford to withdraw its troops and rely for ground defenses solely on allied troops. Morale of U. S. allies in Europe, for example, is said to depend largely on the presence of American divisions, as concrete evidence that U. S. is firmly committed to defense of that area.

In Asia, the physical presence of U. S. troops is even more important—as a rallying force that is there to be seen by anti-Communists. Presence of a mobile emergency force at home is necessary for the same reason.

Plan—Rely on bigger Reserve forces instead of large U. S. Army in being.

• **Eisenhower position:** The new Reserve plan, now being proposed in detail, will greatly increase the size and effectiveness of U. S. Reserve forces, can be relied on as a cheaper substitute for big standing armies, maintained indefinitely.

• **Ridgway position:** This puts the cart before the horse, relies on a Reserve plan that has not yet gotten under way and that would take years to build an efficient Reserve force—with size of the standing Army to be cut almost immediately. There is some question, too, as to whether the decisive phase of a major new war will last long enough to bring Reserve forces into active use.

Plan—Substitute new weapons for massed manpower.

• **Eisenhower position:** Tactical use of "A-weapons" in future warfare, will mean that small, mobile Army units will be able to accomplish missions that once called for masses of troops. Large units, moreover, will become more vulnerable on the atomic battlefields of the future. Smaller ground forces, thus, are called for.

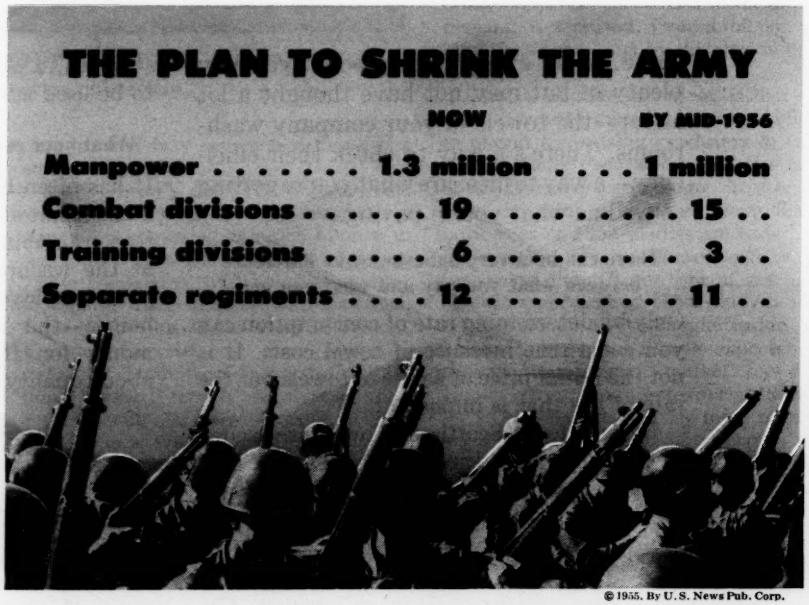
• **Ridgway position:** Even more men, not fewer, probably will be needed on the ground to fight a nuclear war. Casualties are likely to be higher. Larger areas will be fought over. If both sides have atomic weapons, relative size of manpower still will be important. And it is still possible that the Army will have to fight a Korea-type war at some time in the future without being authorized to use nuclear weapons.

Plan—Cut Army "overhead," reduce supporting forces, to save manpower.

• **Eisenhower position:** Noncombat "supporting" forces of the Army already have been cut from 23 per cent of total Army strength in 1950 to 16.5 per cent today, can be cut still further by careful planning. That means fewer men needed for overhead jobs.

• **Ridgway position:** As a practical matter, nearly all of the "fat" has been squeezed out of the Army now. Supporting forces may be cut slightly, to 15 per cent of total strength a year from now. But, under conditions of nuclear war, ground units must be dispersed widely, with a correspondingly greater need for communications, transportation, maintenance—and more men to handle these functions. Overhead, as a result, could actually increase with the use of new weapons.

It is the effect of these arguments on Congress that will decide, in the end, whether the Administration's plan to cut the Army is to be approved.


THE PLAN TO SHRINK THE ARMY
NOW
BY MID-1956
Manpower . . . . . 1.3 million . . . . 1 million
Combat divisions . . . . . 19 . . . . . 15 . .
Training divisions . . . . . 6 . . . . . 3 . .
Separate regiments . . . . 12 . . . . . 11 . .

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What Ike Says About Chance of War

Following are excerpts from President Eisenhower's press conference of Feb. 2, 1955, dealing with the tense situation around Formosa. Direct quotation of the President's answers has been authorized except in one instance, where the answer is paraphrased according to White House rules:

Richard L. Wilson [Cowles Publications]: Mr. President, in spite of assurances which you have given, and in spite of statements which have been made in Congress, I think there is still a great deal of uneasiness in the country with respect to whether your policy will lead to fighting in the Far East. Could you discuss that subject again?

The President: Well, certainly this: The purpose is to make certain that no conflict occurs through mistaken calculations on the other side as to our concern about Formosa and our determination to defend it. We have been as exact as it seems possible to be, and we have certainly tried to avoid being truculent. The purpose is honestly and hopefully to prevent war.

° ° °

Chalmers M. Roberts [Washington *Post and Times-Herald*]: Mr. President . . . you said the purpose of your program in Formosa, in regard to the Formosa situation, was honestly and hopefully to prevent war. Could you tell us whether, as of now, you feel as hopeful or more hopeful or otherwise than when you launched this program?

The President: Well, I think at least we have made this stride, that we certainly have removed from anybody's mind, friend or potential foe, as to the determination of America to see that this great island barrier is maintained intact in the Pacific, that we are not going to let international Communism get that spearhead out into, extending out into, the Pacific and, therefore, extend its influence in that region.

Now, that has been made crystal clear in the resolution, and to that extent ought to be helpful, because so many things happen in the international world through probing, through false conclusions that might be drawn from a successful probe—the thought that the victim will never react.

Here it is an attempt that has been made, at least, in the field of intention to make our purposes clear.

Mr. Wilson: Permit me to follow that up a bit. I think in one of your messages to Congress—I think it was the state-of-the-union message—you referred to a world stalemate, the possibility of its continuing. Do you think the element of stalemate is implied in the Far Eastern situation as it stands today?

The President: Well, of that I can't be too sure, but I used the word "stalemate" deliberately, Mr. Wilson, because, it seems to me, we get so much in the habit of using terms or phrases, and then each of us attaches to the term or phrase his own meaning.

For instance, this thing of coexistence; then someone gives it and defines it with an adjective, and suddenly it is appeasement.

Now, to my mind, coexistence is, in effect—is, in fact—a state of our being as long as we are not attempting to destroy the other side.

I make it a very simple thing in my mind, but I find that others give additional interpretations that I don't mean at all.

Now, when I said "stalemate," I was trying to describe where neither side is getting what it desires in this whole world struggle, but that they, at least, have sense enough to agree that they must not pursue it deliberately and through force of arms; that is all.

° ° °

Edward T. Folliard [Washington *Post and Times-Herald*]: Mr. President, you have used the term "miscalculation." You do not want Red China to miscalculate in this situation. Do you feel that wars have started as a result of a miscalculation, or, to put it another way, do you feel that recent wars might have been avoided had something been said in advance to head off a miscalculation?

The President: Well, of course, we don't want to get into a discussion of military history here, I think. But let us take—I do believe this: I believe World War I did start largely through miscalculation. A prince was murdered; there began to be an exchange of notes back and forth, and I believe that there was a miscalculation of what Russia, France and Britain would do, and that created that war.

The second World War, I would rather doubt that. I think that you had a personality there that was so bent upon achieving certainly pan-European power, at least, that probably nothing would stop it.

Now, I feel that the Korean conflict started because of our failing to make clear that we would defend this small nation, which had just started, in a pinch.

Now, I am not trying to say, I am not trying to attach any blame on anybody here; but we were weak in forces, we were hopeful for peace, and I think it logical to hope for peace.

We took our forces out of there, and [it] became possibly the conviction of the Reds that they could take the country over without resistance.

Douglass Cater [*The Reporter* magazine]: Mr. President, some of the Senators have criticized the recent resolution in that it leaves the islands that are in greatest peril in the greatest obscurity, namely, Matsu and Quemoy. Do you feel there is a danger of miscalculation because there is not exact knowledge as to what our position toward them is to be?

The President: Mr. Eisenhower said he thought the Government should be as exact as it can, but when it comes down to the tactical details of these things, one just simply cannot afford to be too specific. On that particular point, he added, he would comment no more.

Robert E. Clark [International News Service]: Mr. President, one of General Ridgway's reasons for opposing a reduction in the strength of the Army is reportedly his belief that it would require ground troops, the use of our ground troops, to help defend Quemoy and the Matsus. Is it your opinion that we could defend Formosa only with air and naval units without committing any ground forces?

The President: Ground forces other than on Formosa, is that what you are talking about? We have small detachments on Formosa, training troops; we have had small detachments in some of the other places, training troops, and that sort of thing. But when it comes to committing of land forces of the United States in this particular situation, there has been no recommendation of that kind made to me at all.

DRAFT CATCHING OLDER MEN

Rescreening Brings Up 27, 28-Year-Olds

Older men are being taken by the draft in increasing numbers. Some are nearing their 30s.

Many had physical defects for years. Most have families. They're surprised, to put it mildly, that the Army wants them.

A tight draft law and low Army physical standards lie behind the trend. More than 3.8 million men are affected.

A man in Nebraska, age 28, is about to be drafted. This man is two years above the usual age limit of the draft.

In North Carolina another man, age 28, with a wife and two children, has been called for induction. An Indiana engineer, age 27, working for the Atomic Energy Commission, recently was called into service. In California, a man long deferred for medical reasons now is being drafted at age 27.

These are just samples of a situation getting attention all across the country.

Draft boards are calling men who thought that they had passed the draft age limit. People are asking whether a new policy is being applied to force older men into the Army.

The answer to the developing mystery is simply this: Draft law requires draft boards to take oldest available men first. For men who get any one of eight different deferments, draft liability runs to age 35. Regulations, at the same time, call for draft boards to rescreen their manpower pools every 12 months.

Examples show best how draft rules are hitting older men.

Fit or unfit? The 28-year-old man in Nebraska, who is about to be drafted, is one of those being picked up by re-examination under physical standards lower than those obtaining when he was first examined and put in 4-F.

This man was first rejected in 1951 because he was underweight and had high blood pressure. When he thus became 4-F, he automatically became draft-eligible until age 35. But that didn't mean much, in practical terms, as long as Army physical standards stayed high.

In May, 1952, however, the Army responded to congressional pressure, stopped a gradual rise in its physical standards, reverted to lower standards equal to those of 1945, at the peak of World War II. Under those standards, the Nebraska man of 28, and thousands like him, apparently can qualify.

Other older men are being drafted because they cure their defects. A native of Tennessee, for example, was turned down by the Army early in the Korean war because he had a hernia. He moved to Virginia, got a job as an instructor in a dancing school, had his hernia repaired. His new draft board, in Virginia, eventually ordered him up for a routine check. The Army took him—although, by then, he was age 27.

–Pix

DRAFTEES ARE SWORN IN
Some never expected to serve

Parenthood. Deferment for fatherhood also extends liability to age 35, as some older men are shocked to find out.

A man in North Carolina, once deferred as a married man with two children, now has been drafted, for example, though he was 28 years old and was paying $15 a week to support the family, under a court order. He became draftable because he left his wife. The draft law states that a man must live in the home to qualify for draft deferment, as a father.

Other fathers are being drafted, at ages well over 26, because they neglected to inform their draft boards before Aug. 25, 1953, of their fatherhood. Some boards enforce this technicality, while others get around it by giving the fathers in such cases a hardship deferment.

An example of a "tough" draft board is illustrated by what happened to a man in a Southern State.

This man was 4-F on his first draft exam because he had a broken ankle. After that healed, and the draft board approached him again, the man enlisted in the Air Force. The Air Force discharged him after two months and 26 days of service, for reasons not specified.

The youth married, became a father in early 1953, but failed to report that fact to his draft board. In October, 1954, when he was 27, he was called again by his draft board and drafted. His board acted on the strength of a White House order, issued in December, 1953, which specified that a man who entered service after June 24, 1948, had to serve at least six months before he became a "veteran," and draft-exempt. Prior to that order, a man who had served as little as one day after June 24, 1948, was draft safe.

Essential workers. Men who take deferments as essential workers also extend their draft liability to age 35. This tripped up one man, a Ph.D. in engineering from Indiana. He kept draft deferment through his job with a Southern aircraft company until last May. By then, he was 27.

At that point he shifted to another job, with the Atomic Energy Commission. His Indiana draft board called him up for duty, and the AEC refused to appeal for him.

Farmers. Deferred farmers, who also are draft-liable until age 35, can be taken when they are no longer farming, or after a "reasonable" time for training a replacement has passed. A man in Kansas, for example, was deferred until age 27, while working a farm for his sick father. When his father died, and the farm was sold by the heirs, the man was drafted.

College students who are deferred to finish education, and youths deferred as members of Reserve or National Guard units, also are open to drafting until age 35. Altogether, more than 3.8 million Americans are in that fix.

Most of them will never be drafted, in all likelihood. But only those with major physical defects can be sure of that. As Congress debates an extension of the draft law, it is going to consider changes to take some of the uncertainty out of draft prospects, especially for men over age 26.

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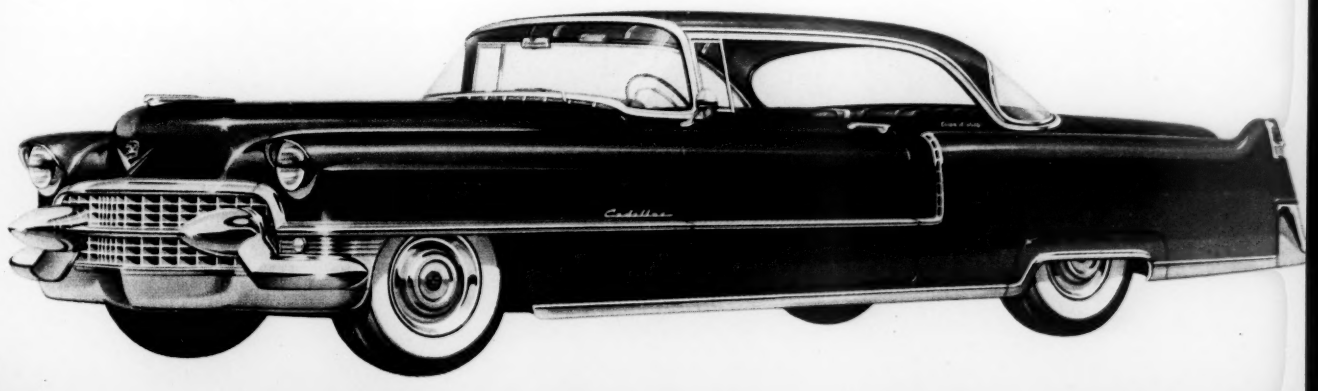

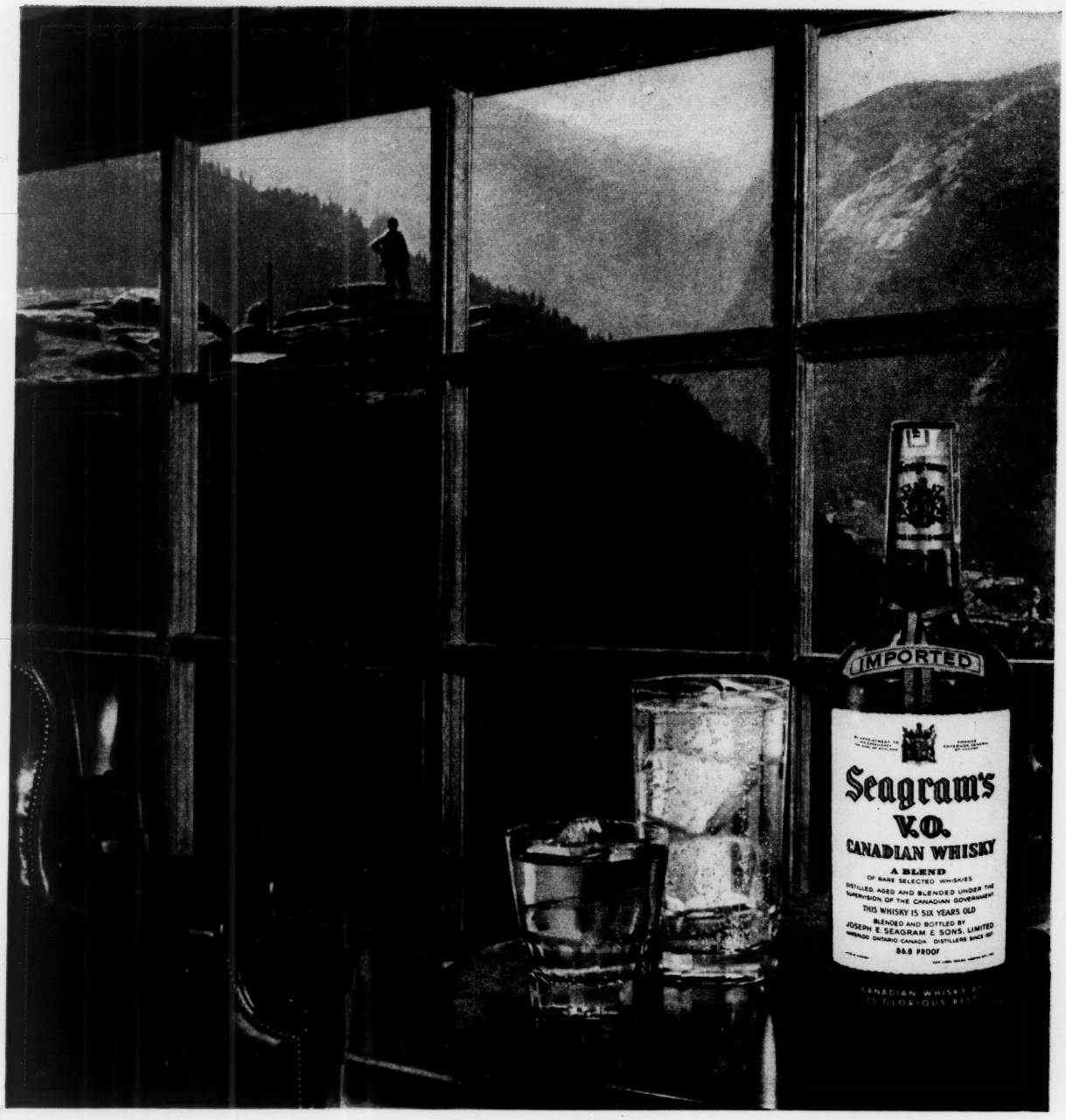

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WHEN U.S. DID FIGHT RED CHINA...

Commanders Say Rules Were Rigged To Keep America From Winning

Once again Communist China is talking tough, threatening war for the United States.

In the Korean war, the Chinese fought U. S. forces to a standstill, gaining a draw.

Failure of the U. S. to win in Korea is stimulating the Communists to be bold around Formosa. Many Americans appear afraid that Formosa may become a replica of Korea.

The story of what really happened in Korea throws light on the present.

Five top-ranking military and naval commanders of the earlier war now have given Congress a glimpse below the surface. They tell in testimony before a subcommittee of the Senate Judiciary Committee how Americans were denied the right to win.

Clark: "I Did Not Have Authority To Launch a General Offensive"

Gen. Mark Clark was Supreme Commander of United Nations forces in Korea in the later stages of the war. When congressional hearings were held on the conflict, Senator William E. Jenner (Rep.), of Indiana, was chairman of the investigating subcommittee and the late Senator Pat McCarran (Dem.), of Nevada, was a member of the group. In the following testimony, General Clark tells how his orders were limited and of his suspicion that the Communists knew the U. S. would not attack beyond the Yalu River:

Alva C. Carpenter [chief counsel of the Committee]: When you were sent to the Far East, . . . what was your directive?

General Clark: My military mission, . . . which I inherited, was a defensive mission. I did not have the authority to launch a general offensive designed to defeat the enemy. My mission was . . . to remain approximately in the area that I was, just north of the 38th parallel, and to inflict the maximum number of casualties on the enemy, while at the same time conserving the strength of my command.

° ° °

Mr. Carpenter: Whom did that decision favor, putting you in a defensive position?

° ° °

General Clark: I think the enemy certainly was aware by our actions that we were not going to launch any all-out offensive. I think that he was sure that we were not going to bomb beyond the Yalu River and attack his bases from which he derived the power to carry on that war . . . It helped them. There is no question about it.

° ° °

Mr. Carpenter: Did you agree with General [Douglas] MacArthur that the enemy should not have been allowed a sanctuary beyond the Yalu?

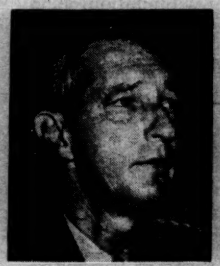
General Clark: Yes sir, I agreed at the time when they came in. . . . I think at that time we should have indicated that we were at war with Red China and should have retaliated with everything we had at our disposal.

° ° °

Mr. Carpenter: Who . . . was responsible for these restrictions?

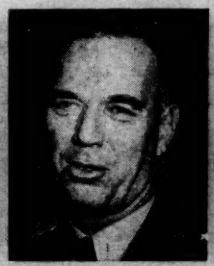
General Clark: I would like to say . . . that every military decision has its political counterpart, and they have to be taken into consideration. . . . I realize that there were other

5 COMMANDERS WHO TESTIFIED:



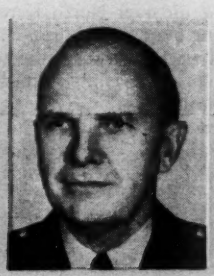
GEN. CLARK

GEN. STRATEMEYER



GEN. VAN FLEET

ADMIRAL JOY



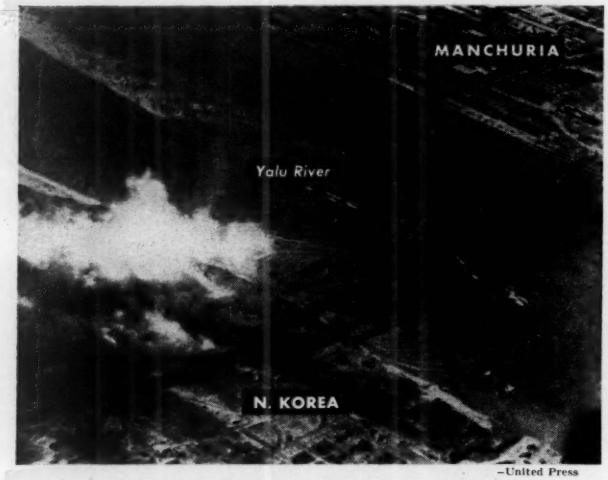
GEN. ALMOND

factors involved, such as the danger of World War III, or the alienation of our allies. . . . I had the feeling and still have it, that the signals were being called by the State Department or by somebody higher.

Senator McCarran: Was it your judgment . . . that had we crossed the Yalu River at the time the Chinese came across that might have triggered a third world war?

General Clark: . . . I do not think it would have started World War III, nor do I think, when I was in command, and had I bombed the bases, which I would have liked to have done, and the airfields from which the enemy derived his source of power, that that would have dragged us into World War III. I do not think you can drag the Soviets into a world war except at a time and place of their own choosing. They have been doing too well in the "cold war."

* * *



–United Press

GENERAL STRATEMEYER: "We could not fly our bomb run the length of the bridge to take it out"

Stratemeyer: "We Could Have Bombed Them, But We Weren't Permitted To"

Lieut. Gen. George E. Stratemeyer was the air commander during the first year of the Korean war. Here he tells how the Air Force was held in leash, could not bomb airfields and supplies that could be seen across the Yalu:

Mr. Carpenter: Was authority to bomb the Yalu bridges eventually given?

General Stratemeyer: Yes, sir, but . . . we were restricted to the air over North Korea only. . . . We could not violate the air over Manchuria. . . . We could not fly our bomb run the length of the bridge to take it out. We had to fly on a tangent. We could not go over midstream, and with the curvature of the river, at times, particularly where it was concave, it was almost an impossibility.

Senator McCarran: It was over these bridges that the Chinese Army was coming in hordes, was not that true, and bringing its supplies?

General Stratemeyer: Yes sir . . . every night . . . that was a lighted highway.

Senator McCarran: What did you observe, General, as to the amount of supplies that the enemy had on the north side of the river?

General Stratemeyer: We saw them piled up. . . . We could see with our reconnaissance and even with the eye. . . . But we were not permitted to hit it. . . . To be successful in the air, our great strategy is to hit the supplies, the bases from which the material comes to maintain the enemy at the front. We were not permitted to do it. Furthermore, we would go after some of these Communist airplanes, and we knew we could shoot them down, but we were not permitted to follow them in and shoot them down.

Mr. Carpenter: You were not permitted to follow them north of the river?

General Stratemeyer: No sir. . . . On the Manchurian side [of the river], it was literally lined with antiaircraft, and later in the war became lined with the finest radar antiaircraft, I believe, that exist. . . . We were not permitted to take out this antiaircraft that was continually firing at us. . . .

* * *

Mr. Carpenter: Did you feel equipped and able to carry out your part of the mission?

General Stratemeyer: I had sufficient air, bombardment, fighters, reconnaissance [at the time of the Chinese attack across the Yalu] so that I could have taken out all those supplies, those airdromes on the other side of the Yalu; I could have bombed the devils between there and Mukden, stopped that railroad operating and the people of China that were fighting could not have been supplied. . . . But we weren't permitted to do it. As a result, a lot of American blood was spilled over there in Korea.

* * *

Van Fleet: "Opportunities to Advance, But There Were No Orders to Do So"

Gen. James A. Van Fleet commanded the Eighth Army in Korea. He testifies about his frustrations: a ceiling on the training of South Korean troops; lost opportunities for counterattack by U. S. forces. From testimony:

Mr. Carpenter: Were there reasons for limiting the Republic of Korea training program?

General Van Fleet: I do not believe there was any political reason for limiting the size of the Korean forces. I think it was mostly economic and perhaps some person's military views that they were not good soldiers.

Mr. Carpenter: What is your opinion as to their ability as soldiers?

General Van Fleet: They are among the finest soldiers in the world. . . .

Mr. Carpenter: Were there limitations on the number of ROK soldiers you could train, General?

General Van Fleet: Yes. There was a ceiling on the number. That ceiling was controlled partly by money, partly by a belief that it would be enough to take care of the situation the high command had in mind. . . .

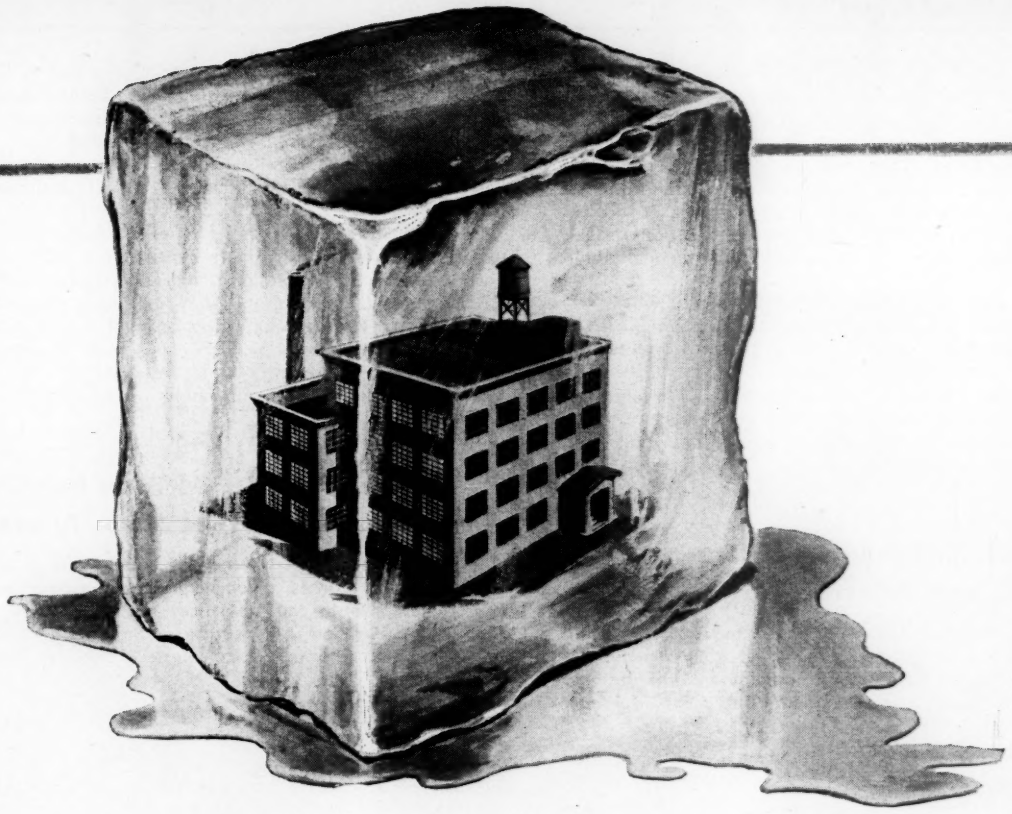
Chairman Jenner: General, did you ever stop to wonder why . . . the nation . . . would put a limitation ceiling upon the troops of a country that our boys were defending, fighting for?

General Van Fleet: It seemed absurd since a war that they were willing to fight—as a matter of fact, [South Korea's] President Rhee, bless him, would often inspect with me new arrivals of American units, and with tears in his eyes would say, "General, I don't like to see your little American boys come over here so far from home and fight in this country for us; we have lots of manpower; we will do the fighting; just give us the weapons and the training." Repeatedly, he would ask me to present that to my Government as a plea to them.

Chairman Jenner: And you did?

General Van Fleet: I did.

(Continued on page 38)



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Chairman Jenner: What was your answer; a limitation?
General Van Fleet: Always a limitation.

° ° °

Chairman Jenner: . . . you were limited [in your attacks]?
General Van Fleet: They felt confident that we would not strike them. Therefore they could seize the initiative in assembling forces and piles of ammunition at critical points and then break out with a perfectly furious attack to take a limited objective of considerable tactical value to them.

. . . There were many wonderful opportunities where we could have advanced great distances following up one of those Communist attacks, in which he threw everything he had on a rather wide front. His effort was destroyed usually by our air and artillery counteroffensive, by counteroffensive, by fire rather than by manpower. And having destroyed his troops and the supplies he had in that area, we were quite free then to go considerable distances; but there were no orders to do so.

° ° °

Almond: "I Was Told to Halt My Troops and Advance No Farther"

Lieut. Gen. Edward M. Almond commanded the Tenth Army Corps in Korea. His testimony gives a vivid picture of the ground fighting in Korea and his resentment at being held back from victory by a top-level policy decision in Washington:

Mr. Carpenter: General . . . could you go into detail [on the Korean fighting] that was never well reported in this country? . . . I believe it needs clarification by one who was there.

General Almond: The Chinese made three distinctly large attacks in Korea. . . . The first one was in early December against the Eighth Army and against the Tenth Corps at the Chosin reservoir in 1950. That attack . . . resulted in the Eighth Army withdrawing as far south as Seoul. . . .

The second attack occurred on the 22d of April, 1951, and this attack was on the front of First Corps and in the vicinity of Uijongbu and some 20 miles north of Seoul. . . . On the 8th of May, 1951, General [George C.] Marshall testified before a committee of Congress that the Chinese were so badly handled in that attack of the 22d that [they] . . . probably wouldn't be employed again in an important attack for months.

In exactly eight days from the time he made that statement, the Chinese moved. . . . 175,000 Chinamen attacked the Second Infantry Division north of Hangye with the idea of destroying that division . . . splitting the ROK Army on the right of the Second Division . . . away from the Eighth Army, driving a wedge through there and blocking off the Eighth Army from its base at Pusan. That attack materialized on the 16th of May.

. . . In that effort, the Tenth Corps composed of 3 American divisions and 4 ROK divisions sustained 14,000 casualties, 7,000 Americans and about 7,000 ROK's. For six days while this battle was going on day and night, after the second day, we withdrew each night to a new line and bent with the wind or the breeze of the enemy attack. . . .

When my intelligence officer indicated to me that this great force of 175,000 men . . . had consumed most of their rations and a great part of their ammunition . . . we struck back at them. . . .

On the 22d we started the attack. We drove across the enemy's rear on an axis of attack from Honchon to this point called Inje and in the next 2 or 3 days this complete enemy force . . . reversed itself and started hiking for the rear. They lost every piece of transportation that they had in this area. We captured groups of pack animals which they should have been able to get out except that the horses and mules were poor and the supplies were exhausted. . . . By the 1st of June we had regained much of the territory that we had lost in December and January, 1950-51, and some more besides.

About this time . . . a thing happened to me that I never experienced before. By private conversation with . . . General Van Fleet, I was told to halt my troops on that line and advance no farther and only to take action in an aggressive way that would either straighten out and stabilize that line or protect the lines of my men. In other words, it was decided somewhere above General Van Fleet's head, and where I do not know. I complied with the orders. . . .

° ° °

Joy: "If MacArthur Had Been Reinforced, The Chinese Might Not Have Attacked"

Vice Admiral Charles Turner Joy was in charge of United Nations naval forces during the Korean war and was senior delegate in the armistice negotiations. In his testimony, he tells how a blockade of the China coast would have helped to bring victory instead of the negotiated stalemate:

Mr. Carpenter: Was Korea the wrong war at the wrong place at the wrong time?

Admiral Joy: Quite the contrary. It was a war of deep significance in a battle area which held many advantages for the United Nations forces. Furthermore, it was very timely from the standpoint of resisting Communist aggression. With the excellent bases in Japan, with the capabilities of flying carrier-based planes over the entire peninsula, and with a coast line that lent itself admirably to bombardment missions in support of the Army, the Navy could not have fought in a more favorable distant area from the United States.

Senator Jenner: Could we have defeated the Chinese Communists in Korea?

Admiral Joy: Well, I believe the United Nations Command could have defeated the Communists, or at least caused them to withdraw from the Korean peninsula, had not the Commander in Chief of the Far East been restricted in the use of his forces, and had an effective U. N. blockade of Red China been established as soon as the Chinese entered the war.

Some Army commanders I have talked to also believed we would have required more ground troops in reserve to accomplish this. I know General Ridgway [who preceded General Clark as top commander in Korea] was also concerned about the paucity of reserve units for a sustained offensive. In view of Article 42 of the United Nations Charter, I can see no valid reason why a naval blockade should not have been established. . . . I believe we could have decisively defeated the Communists.

° ° °

Senator Jenner: What would have happened, in your opinion, Admiral, if General MacArthur [Commander at the start of the Korean war] had received the reinforcements that he begged for?

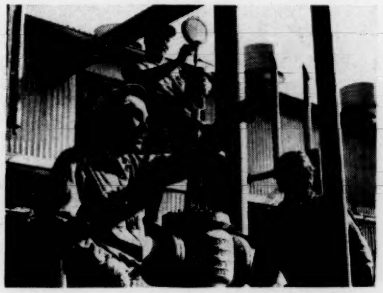
Admiral Joy: He continually begged for reinforcements, Senator, in the early days as well as after the Chinese attack. But he was, in general, told that they were not available. I believe that, had he received ample reinforcements at the beginning of the Korean war, the Chinese might not have dared to attack.

Ford Pyle

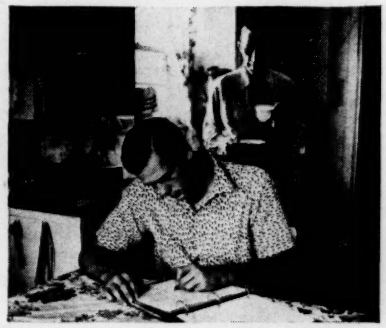
HE'S HAPPY THE WAY THINGS HAPPENED

"I've heard it said that in this country everybody has a chance to become President.

"Me, I don't think I'll make it. I retired last December after 36 years on the job. Started with Union Oil as a roustabout back in 1918. Had no real training, mind you. Just a feeling for machinery I'd picked up on my Dad's ranch. So I shoveled—9 hours a day, 6 days a week. Made $24.



"I ended up a Senior Mechanic in charge of Union Oil's Rosecrans Plant—working 8 hours a day, 5 days a week, and getting lots more done. Making over 5 times more, too.



"Put my two boys through college. Got my house all paid for and a tidy sum set aside. And Union Oil's giving me 70% pay long as I live.

"President? Nope, not Ford Pyle. But that's not important. The big thing is I'm plenty happy just the way things happened. After all, where else but in this country could I get so much back just for doing the job well?"

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Interview with FORMER TOP CHINESE COMMUNIST
Chang Kuo-tao

WHAT THE CHINESE REDS WANT— AND HOW THEY'LL TRY TO GET IT

The last thing in the world Red China wants is war with the United States.

That is the judgment of Chang Kuo-tao, the man who helped to set the Chinese Communist Party aims—then fought Mao Tse-tung for the leadership, and was defeated.

What is the real game of the Communists? Why are they so warlike about Formosa? Does Peiping or Moscow call the signals? Is Mao or Premier Chou En-lai the real boss in China? Chang Kuo-tao, who gives the answers here, knows intimately China's rulers and their goals. He was one of them until 1938, when he lost a power struggle with Mao.

Just before the present Formosa crisis developed, Chang was interviewed in Hong Kong by Robert P. Martin, Regional Editor in the Far East for *U. S. News & World Report*.

At HONG KONG

Q Mr. Chang, will the Chinese Communists risk a war with the United States to conquer Formosa?

A I don't think Peiping will risk war. In fact, she seems to be trying to avoid war with the United States. From the settlements in Korea and Indo-China you can see that. It seems to me that Communist China would rather force the United States into concessions as a result of diplomatic and political pressure.

Q Do the Communists, though, consider it absolutely necessary to eliminate Chiang Kai-shek, Nationalist Chinese leader on Formosa?

A I would say the five-year plan is of the greatest importance to them. But, in the meantime, I am sure they want very much to take over Formosa. They would naturally not like to see Formosa put under a trusteeship or anything like that.

Q Does Communist China really think it highly important to get into the United Nations?

A Yes, for many reasons, such as international and domestic prestige—and because, I imagine, Peiping believes it would be a step toward settling the Formosa problem to the Communists' advantage.

Q Is China hoping for a period of peace now, or is she planning aggression or war?

A Remember that Communist China is still a backward country. She cannot really support aggression. And so I should say two things motivate her now. One is the desire to grow stronger and become a real world power. The second is the Soviet Union. Since Communist China is a member of the world Communist camp, she may be pushed into aggressive acts by the Soviet Union. But, of course, the Chinese Communists have the traditional Chinese ambition to dominate Asia.

Q How would you characterize the Chinese Communists' relationship with Russia today—is China a younger brother, or a satellite, or an equal?

A The relationship has been smoother since Stalin's death. Right now, the two seem to be following a parallel course based on mutual agreement. I think they probably thresh out their problems much as the United States and England do, but without the publicity. Right now, the Chinese Communists are a younger brother. Chinese usage ranks the younger brother No. 2 in a family. But he does have a family status.

Q Is it Chinese nature to be willing to remain in the No. 2 position?

A Before the younger brother grows up he will listen to his older brother. When a time comes that the older brother may demand too much from the younger brother, then the younger brother may not agree to everything. In other words, when the younger brother's wings are strong enough so he can fly alone, he might not want to listen any more.

Q Do you think that Russia would like to see China and the United States at war?

A In the Korean-war days, I think Soviet Russia definitely wanted to get the United States involved militarily in Asia short of the point where Russia herself would be drawn into it. The situation now is different. If Communist China were to have a head-on clash with the United States, it would seem difficult for Russia to keep out of it. This is something Russia must consider.

Q In other words, Russia would honor her commitments to China?

A From the way Russia helped North Korea, she was reluctant to give up her satellite regime. I should think she

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Intrigue and Pressure—No Hot War—Aimed at Driving U. S. Out of Asia . . . Communists Trying to Gain Time

would be even more reluctant to give up her far stronger little brother. I think she probably would honor her commitments to China.

Q What are Communist China's real objectives in Asia? Does she intend to drive out the United States and the other Western powers from Asia?

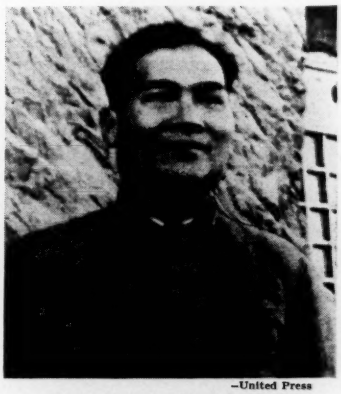
A Yes, this is one of Communist China's major aims. Of course, she can't expect to achieve this right away. Right now she has no choice but to tolerate some Western influence in Asia. For the time being, I would say Communist China's aim is to prevent the growing up in Asia of any group of powers or any single power—Japan, for example—strong enough to thwart her interests.

Q Is the long-range objective of Communist China to have all of Asia Communist?

A Chinese Communist slogans like "world revolution," "liberation of Asia," "Asia for the Asians" and "Asian countries should follow in the footsteps of Mao Tse-tung" make it obvious that she would like to assume hegemony in Asia.

Q But does that mean every country would ultimately have to be Communist?

A Of course, Communist China looks forward to a Communist Asia. But she can't expect to bring this about with one stroke. She must tolerate friendship with the Colombo powers, for example—especially India, Burma and Indonesia. But basically she resents the fact that these countries were given independence from their former colonial status. For, once they received independence, this prevented world revolution.



—United Press

CHANG KUO-TAO in 1938
(when he was second in command to Mao Tse-tung)

Q What weapons would the Chinese Communists be likely to use in Asia within the next two to five years—direct attack, infiltration, or what?

A When the Communists first came to power in China, they behaved like a roaring tiger. They showed off their strength, especially in the Korean war. But in the Korean war they were taught a lesson, that force did not always pay. So now China has switched to milder tactics, such as maintaining an amiable relationship with the Colombo countries. She has even indicated that she would like to sign a nonaggression pact with Japan. That shows that she probably would be reluctant to start a war. Infiltration, of course, she must and does use as usual.

Q You mean she now depends more on political rather than military pressure?

A Yes. Communist China I think wants to promote neutralism in Asia, such as India is following, because that is profitable to her.

Q In other words, you see no danger of aggression by the Chinese Communists within the next five years—

A I think in the coming five years the Chinese Communists would like very much to avoid war.

Q Why?

A For domestic construction, which will take time.

Q What is their primary aim in domestic construction? Are they aiming more at war potential or peacetime industry?

A The Communists call their industrialization "national-defense construction" and "economic and cultural construction." They list national-defense construction first, which makes it obvious that their chief purpose is a greater war potential.

Q Who is the real power in Peiping? Who makes the decisions?

A Mao Tse-tung makes all decisions, but of course he may often let his decisions be made known to the Politburo in advance so as to make it look like a collective decision.

Q Would you say that Chu Teh controlled the Army?

A Chu Teh is "Mr. Hao Hao" ["Good—Good," a cheery form of approbation or welcome]. He likes everybody and everybody likes him. But final control of the Army is in the hands of Mao Tse-tung. Mao has had sole control of the Army in the past and he will *(Continued on next page)*

—Eastfoto

MAO CHOU CHU TEH
They have "pretty solid control all over China"

. . . "Chou En-lai is a smooth and clever politician"

continue to have sole control, as I see it, under the draft constitution.

Q Who are the top military men?

A Some changes are taking place in the military group. The former top leaders are losing their power. The younger military leaders who are gaining more and more power are, among others: Su Yu, Chen Keng, Wang Cheng, and Chen Hsi-lien. The field-army system has been abolished now, and the Communists have switched over to army groups. They are now splitting down to smaller units. Su Yu is Deputy Chief of Staff and the others are Army group commanders.

Q Does the party fear the Army?

A I doubt that the party fears the Army. But I think the party would like to increase its control over the Army to prevent the rise of old war-lord types and the building of independent kingdoms.

MAO'S STRENGTH: THE ARMY—

Q What is your opinion of Mao Tse-tung?

A Mao Tse-tung is a Communist with a very strong Chinese color. He owes his success to the Army, especially the Army which conducted guerrilla warfare. He is a very stubborn man. Sometimes he takes risks. But, in this respect, on the whole, he is conservative.

Q Is Mao Tse-tung ruthless?

A Yes, he is ruthless. But not quite as ruthless as Stalin. Maybe because he is Chinese he more or less tends to follow traditional Chinese inclinations to compromise and to maintain a front of accommodation. He maintains, for example, a calculated cordiality toward the so-called democratic groups in Communist China—like Li Chi-shen and others. But he becomes really ruthless if he finds someone challenging his authority.

Q Does he want to be semideified, the way Stalin was?

A He enjoys being deified—being considered infallible. Maybe because of that he seldom speaks nowadays, as though he were trying to drive the value of his words up by making them scarce.

Q How about Chou En-lai, the Premier and Foreign Minister?

A Chou En-lai is a very rounded man—a very smooth and clever politician. He is very capable and energetic.

Q Capable in what ways?

A He is capable in handling the Army leaders, Government administrations and particularly in dealing with party differences. He is very clever at manipulating people. He handles differences between groups in the party without actually getting involved in the differences himself. He always seems to come out on top of such differences without getting himself involved.

Q What if Mao died and Chou En-lai replaced him?

A None of the other Chinese Communist leaders is as stubbornly persistent as Mao Tse-tung in every way—in controlling the Army, the party or the Government. And if Chou En-lai should replace Mao, I would guess that control over everything would become looser.

Q Was there any period in the party's history when the Chinese Communists thought that they did not get as much Russian support as they deserved or wanted?

A There was strong anti-Moscow feeling in 1927—not because of Moscow's failure to give full support, but because the Chinese Communists blamed Moscow for the wrong policies it followed in China. As a result of these policies the Chinese Communist Party was very nearly wiped out.

Q Do you think there is any basic anti-Soviet feeling in the Peiping hierarchy?

A I can't see any now. But I know that in the past there has been strong anti-Soviet feeling. An example would be in 1930, during Li Li-san's time. Li Li-san claimed that, if he was loyal to the Chinese and world revolution, he could not be loyal to Moscow. In other words, Li Li-san openly opposed the Comintern. Moscow branded him a "semi-Trotskyite" because of this. In April, 1949, I understand Mao told so-called progressive and democratic personages in China that the Chinese Communists would not commit the same errors Moscow did.

Q Are Russians welcomed in China?

A No. So far as I know, Russians are not especially popular. There is a definite anti-Russian feeling.

Q This anti-Russian feeling exists among the people but not in the party?

A I imagine you can find it in the party, too. In China there is a traditional antipathy against Russia and all Russians. Every single Comintern agent who operated for any length of time in China left unpleasant relations in his wake.

Q Do Russia and China really believe in peaceful coexistence as a long-range policy?

A Their long-range policy is, of course, world revolution and not peaceful coexistence. But their policy at the moment seems to me to be definitely aimed at peaceful coexistence. I guess that they view peaceful coexistence as being to their immediate advantage.

Q Is coexistence essential for China to complete her five-year plan?

A I would say so. But look at it this way: Communist China may use peaceful coexistence to gain time. But you might use the same time for your own ends. Say you are confronted by a poisonous snake. The snake is not ready to strike. You may try to kill it, or you may keep it fenced in and let it feed itself until it is satisfied and then pull its fangs while it is sleeping. In other words, you know the Chinese Communists do not really believe in peaceful coexistence but are using this diversion to gain time.

HOW REDS GAINED CONTROL—

Q Looking back on your long association with the Communist Party in China, what do you now consider their basic strength to be—is it the idea they offer, or the military power they accumulate?

A Military control. Ever since the cease-fire in Korea, the Chinese Communists have increased their control throughout the country. This is reflected by three things: First, the troops seem to be more united and to have better food and seem to have improved their military tactics. Second, the party seems to be rather efficient for a newly risen party. Everything is not carried out to the letter, of course. But, on the whole, it is rather efficient. Third, economic control seems to be efficient. Prices seem to be more or less stable. These things seem to indicate that the Communists have pretty solid control all over China. The people may feel antipathy for the Chinese Communists. But Communist control is strong. There is an increasing antipathy toward the Communists, I would say, in addition to the fact that the ideas they offer do not seem to be well accepted. I would trace their control to the military.

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Chiang's Envoy Says:

"STOP REDS NOW OR LOSE ASIA"

Can the free world lose the offshore islands in Formosa Strait and still halt the Communist advance in Asia?

China's Ambassador V. K. Wellington Koo says the islands must not go to the Reds without a fight. His reason: One more Communist gain in Asia can start a rush to the Red band wagon, wipe away the prestige of the West and threaten the security of the U. S. in the Pacific.

Following are excerpts from a speech by V. K. Wellington Koo, Chinese Ambassador, at the Overseas Press Club, New York, Feb. 3, 1955, as released by the Chinese Embassy:

Early in 1950 the Chinese Communists sent two divisions of troops to invade the island of Quemoy and they were soundly beaten. Some 12,000 enemy troops were killed or driven into the sea and drowned; about 8,000 were taken prisoners. The current hostilities were begun by the Communists five months ago, on Sept. 3, 1954, with a heavy artillery bombardment of Quemoy. They have been attacking Nationalist warships and bombing the offshore islands intermittently during the past five months. . . .

The efforts of the enemy are now centered on the Tachen islands with bombing from the air by TU-2 medium bombers, IL-10 attack bombers, and LA-11 dive bombers covered by MIG-15 fighter planes. In self-defense the air force of the Republic of China has been carrying out a series of retaliatory attacks on the artillery posts on Yikiangshan Island, on enemy naval vessels threatening the Tachen islands, and on air bases on the mainland.

Certain units of the U. S. Seventh Fleet, including a number of aircraft carriers and one wing of the U. S. Air Force, are on the spot watching the situation and ready to act, if attacked.

This picture is admittedly grim but not as grave as some people, especially in Europe, seem to have made out. The peaceful intentions of the U. S. naval and air units in the Formosan area have been officially and repeatedly proclaimed, and there is no reason whatever to cast doubt upon them. . . . It is the Chinese Communists who are the aggressors in the situation, and they are allied with and aided by international Communism with its headquarters in the Kremlin. All the three types of aircraft used by the Communists in attacking the offshore islands are supplied by the Soviet Union.

To understand the whole situation and appraise its significance correctly, we must realize that the Communists' sinister design against the Republic of China is not an isolated phase of civil war but part and parcel of the Communist blueprint for world domination. The offshore islands as seen on the map are far away from Formosa and the Pescadores and close to the Chinese mainland. Taken by themselves, they may appear unimportant to most statesmen and soldiers of the West. But, when considered in the light of the Chinese Communist expansionist program and the ultimate objective of international Communism, their importance is great.

° ° °

Formosa indeed is the spearhead of the free world. It occupies an important post on the frontier facing the Communists and watches what is taking place on the Chinese mainland. . . . Together with the Pescadores, it also constitutes one of the essential links in the long chain of defense for the security of the United States and other countries bordering on the Pacific from Alaska through the Aleutian Islands, Japan, Okinawa, the Philippines and Borneo right down in Australia and New Zealand. To ensure the security of the Formosan area it is important and necessary to hold the offshore islands now in the hands of the Nationalist Government. Without these islands, this task would be infinitely more difficult and costly.

But apart from considerations of military strategy, upon which there may be a difference of opinion, there can be no doubt that politically and psychologically the defense of the offshore islands is of vital significance to the free world. There must be no more yielding of territory to the Communists in order to appease them. . . . Their domination of the Chinese mainland emboldened them to wage war in Korea against the United Nations forces. The United Nations' willing acceptance of a stalemate in Korea encouraged them to intensify their aggression in Indo-China, resulting in the loss of half of Vietnam to the Communists. Politically, therefore, a halt must be called to further aggression by the Communists or they would feel further tempted to march their armies forward in other directions in Asia.

Psychologically, it is equally important that the people of Asia should not be called upon to witness another act of capitulation to the Communist bullying and saber rattling. In view of the boosted Communist prestige as result of their successes in China, Korea and Indo-China, it would be fatal for the free world to let the Communists have the offshore islands without a fight. For it would give further ground for the suspicion of the people of Asia that the Western democracies are not serious in their professed intention to stop Communist expansionism and it would only serve to discredit the free world. Communist prestige would then go up sky-high and the people of Asia would think that the Communist movement is irresistible and destined to succeed in the end; and they would feel that they had better get on the band wagon and join the winning side, the sooner the better for themselves.

WHO GETS U.S. FOOD FREE

Some Gifts Stay at Home, but Most Go Abroad

Wanted: a sure-fire formula for giving away groceries.

U. S., trying to unload 1.5 billion dollars in surplus food by July 1, finds the going tough. Sometimes it has to lend countries back their own money in order to make a "sale."

Squawks come from allies, farmers, Congress. Nobody's happy.

It's turning out to be a major job, with many pitfalls, to try to give away food from this country's surplus.

Held off the market in U. S. storehouses is nearly 7 billion dollars' worth of surplus food and fiber. An effort is being made to get rid of 1.5 billion dollars' worth of this surplus in the year that ends July 1.

That sounds as if it should be an easy job in today's hungry world.

An offer of food to be free, or in exchange for printing-press money, seems to have an appeal. Yet those in charge of the giveaway program report a growing number of headaches.

If butter is offered for sale or trade to Russia there is a roar from many in Congress.

An offer of grain to Asian countries, where people are starving, brings a flood of complaints from other surplus-grain-producing nations that the United States is destroying their market.

Attempts to give away more food through the school-lunch program, and to public institutions at home, brings resistance from those who feel that private business should have this market.

The result is a continuing problem of food surplus.

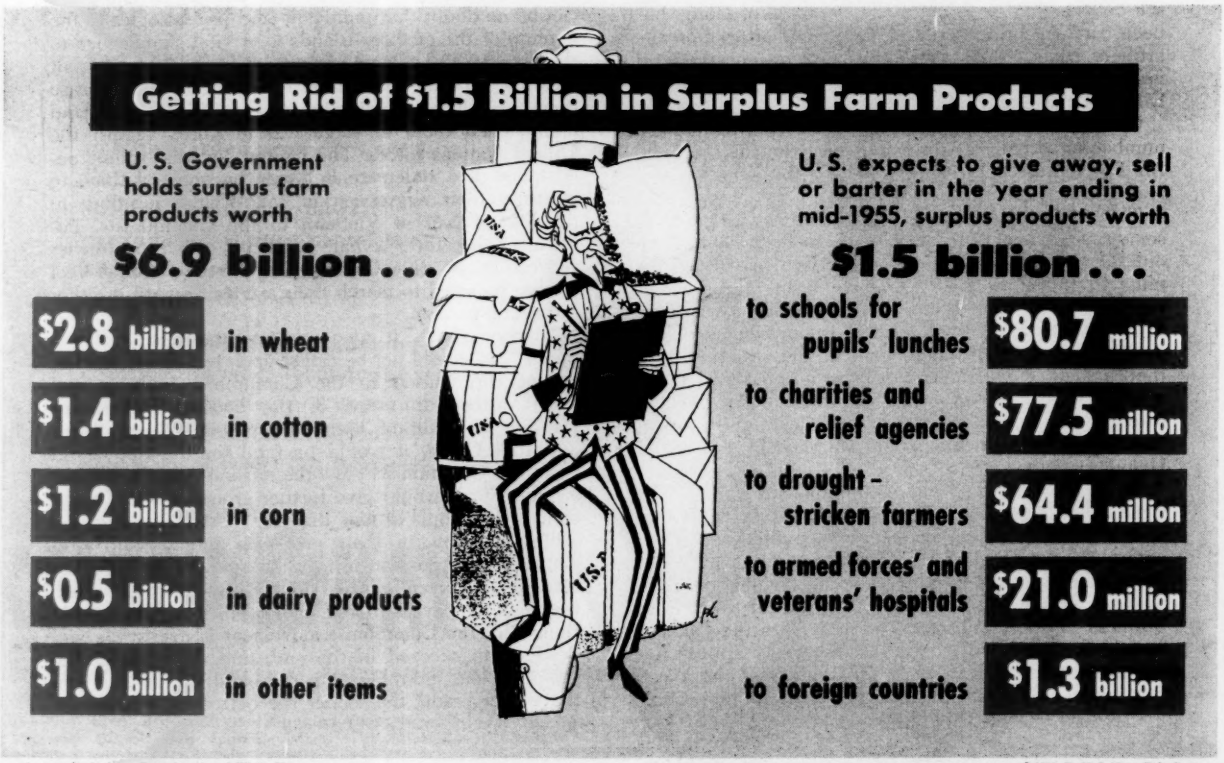
Bargains and giveaways. In an effort to reduce the surplus, Congress, in 1954, set up a vast new program of giveaways, barters and cut-rate sales. Under the program, officials have been able to get rid of about 350 million dollars' worth of surplus products abroad since last July 1.

They expect to do another billion dollars' worth of business between now and next July 1.

Western Europe and Southeast Asia are to get the bulk of the grain, cotton, dairy products and other assorted commodities from the U. S. storehouse of surplus farm products. About 50 per cent of the products is destined for Western Europe and 40 per cent for Southeast Asia.

Yugoslavia recently received 16 million bushels of wheat and 50,000 bales of cotton, sold at a loss of 20 million dollars to U. S. taxpayers. To Turkey, in another recent deal, went 2.5 million bushels of wheat, 3.5 million bushels of barley, and 3.5 million bushels of oats. Loss on this sale was 7 million dollars.

Printing-press money. Newest wrinkle in surplus disposal is to sell the commodities for foreign currency, which, in many cases, is no more than printing-press money. Idea is to make more sales to countries that are short on dollars and then use the foreign currency, wherever possible, in the buying country for pur-


Getting Rid of $1.5 Billion in Surplus Farm Products
U. S. Government holds surplus farm products worth
$6.9 billion . . .
$2.8 billion in wheat
$1.4 billion in cotton
$1.2 billion in corn
$0.5 billion in dairy products
$1.0 billion in other items
U. S. expects to give away, sell or barter in the year ending in mid-1955, surplus products worth
$1.5 billion . . .
to schools for pupils' lunches $80.7 million
to charities and relief agencies $77.5 million
to drought-stricken farmers $64.4 million
to armed forces' and veterans' hospitals $21.0 million
to foreign countries $1.3 billion
U.S.A.

Source: Agriculture Department and White House

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poses that would ordinarily require dollars from the U. S. Treasury.

However, U. S. officials are finding that this new method of merchandising will do little to ease the strain on the U. S. Treasury. In the deals negotiated thus far, the United States has had to agree to loan a sizable portion of foreign currency back to the purchasing nation to make a sale of any size.

For instance, take the deal with Japan. For 30.5 billion yen—about 85 million dollars—the Japanese are to get 13 million bushels of wheat, 2.5 million bushels of barley, 2.2 million hundredweight of rice, 175,000 bales of cotton and 6 million pounds of tobacco. U. S. taxpayers have about 100 million dollars invested in these commodities.

Only about one fifth of the yen will be spent by the United States in Japan for things which would normally require dollars from the U. S. Treasury. The biggest part of it, the equivalent of nearly 60 million dollars, becomes a U. S. loan to Japan for "economic development."

The loans for economic development amount, in large part, to a new system of foreign aid. Loans are to be used for such things as road building, power development and irrigation projects.

Headaches for U. S. Despite provisions by Congress that gifts, and sales for foreign currency, must not disturb the normal channels of world trade, other countries complain. Customers who normally buy their products, they claim now sit back and wait, hoping to get the goods from the U. S. for nothing or at least on bargain terms.

This problem developed on one of the Administration's first giveaway deals. In 1953, Congress authorized shipment of 700,000 tons of free wheat to Pakistan, and made provision for a later shipment of 300,000 tons that was to be on a grant or a loan basis. The 700,000 tons was shipped, but the 300,000 tons was never sent, reportedly because Australia complained that Pakistan reneged on a wheat-purchase agreement when the free wheat started coming in from the U S.

Another headache that plagues U S. farm-surplus salesmen is the difference in eating habits around the world Many Asian people, for example, are rice eaters and don't know how to cook wheat. When a shipment of wheat was sent to relieve famine in the province of Bengal, India, a few years ago, the people cooked it in the same way they were used to preparing rice. The result was an indigestible mess which made the starving people sick instead of relieving their hunger.

Now efforts are being mad in some rice-eating areas to teach the natives

Continued on page 48)

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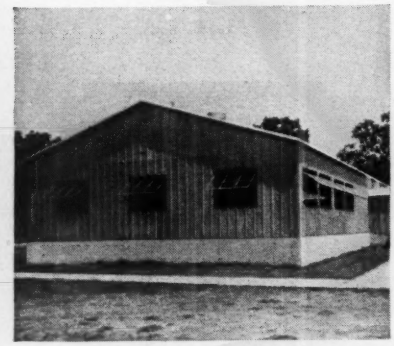

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how to make wheat into flour that can be used to prepare nourishing foods. But this, in turn, has run into difficulties. Thailand and Burma have surplus rice to export. They are not happy to have the United States teaching their customers how to eat wheat. And, at home, farmers in Louisiana and Arkansas have surplus rice on hand, so they can see no reason to teach new habits to rice-eating people.

Too much giveaway? Government officials in charge of the surplus-disposal program are in hot water most of the time. Dairy-State Congressmen say not enough dairy products are being sent abroad. Florida Congressmen want to know why more citrus fruit is not being exported. And Secretary of Agriculture Ezra T. Benson is charged with twisting the authority to sell products for foreign currency into a means of giving commodities away instead of trying to sell them at world-market prices.

Mr. Benson holds that he is moving the products at world-market prices as fast as he can without breaking the world market. He points to recent complaints from New Zealand and Australia when the U. S. offered 10 million pounds of surplus butter for competitive bids. The butter, incidentally, was not sold because the bids were considerably under the world-market price of 37 to 40 cents, which is, in turn, considerably under the 70 cents a pound which U. S. housewives must pay.

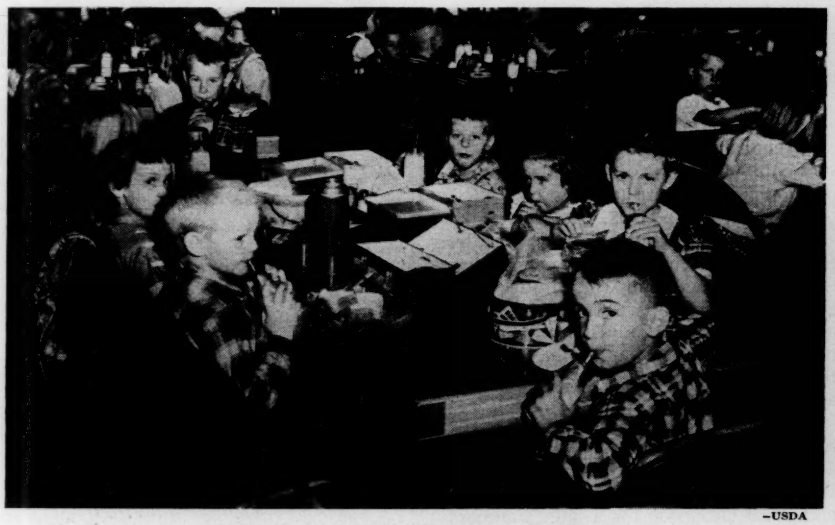
Mr. Benson would like to sell butter, and other surplus farm products, to Russia. But Administration policy is not to sell to Iron Curtain countries for less than the cost of the products to U. S. taxpayers. This results in some tangled deals. For instance, the Dutch are said to be eying U. S. butter because they have sold some of their own to Russia and may now be short of amounts needed to fill a trade commitment to Great Britain.

Ghee for Hindus? U. S. officials may have to go to some lengths to solve the surplus butter problem. Recently they proposed turning the butter rancid and selling it as ghee to people in Asian and Middle Eastern countries. Ghee, which is made by melting butter, cooling it and pouring off the more liquid part, requires no refrigeration and has a rancid flavor, which these people like.

The ghee has been given a trial run in Pakistan for about six months. Around 30 million pounds of butter has been converted to butter oil and sent to the Pakistanis, who have finished the job of turning it into ghee.

Cost of converting the butter to ghee is estimated at 4 cents a pound. This would raise the investment in current butter stocks to 68 cents a pound. Officials think the ghee might bring 25 cents a pound, putting the loss to taxpayers at 43 cents a pound.

All these complaints and complications point up the fact that the problem of what to do with 7 billion dollars' worth of surplus farm products is far from solved. It's widely argued that something is wrong when food spoils in U. S. warehouses while millions of people in the world go to bed hungry every night. But moving this food from U. S. warehouses to these hungry people, even through giveaways and bargain sales, is more easily said than done.



–USDA

SURPLUS MILK FOR SCHOOL LUNCHES
Other giveaways are more controversial

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Now—The Electronic Clerk

It Does the Job Quicker, Better and Cheaper

Businesses swamped with paper work are turning to the electronic "brain" to speed up clerical jobs, save time and money.

Big, medium-sized and little robot "clerks" are coming on the market. They'll figure bills and pay checks, keep track of retail sales and stocks, even remember things.

You'll soon be able to buy a "brain" for $150,000 or less.

Reported from
NEW YORK and DAYTON

In the Chicago area, before long, more than a million families will be getting electricity bills made out by an electronic "brain." The utility company that is installing the "brain" figures it will do the work of 200 clerks, and save $750,000 a year.

A big aircraft firm in Burbank, Calif., has a "giant brain" that tells the management just how to set up production schedules for new airplanes. The "brain" saves thousands of hours of engineering and clerical work every month, and tens of thousands of dollars of labor costs. To the company's top executives, it has proved very helpful in forward planning. They are bringing another "brain" into operation as fast as they can.

Those are only two of many examples that show how a sort of revolution is going on in the handling of paper work in this country. This revolution is coming about through the introduction of more and more electronic "data processing" equipment in big and medium-sized business firms. Within the next few years, this same revolution may reach down into the offices of fairly small businesses.

Speed-up for offices. It's obvious that there is a widespread urge among businessmen to mechanize and speed up operations in the office.

This urge has a solid economic basis. Business is swamped with paper work. In 1940, there were 5 million clerks in offices. By 1954, there were more than 8 million, a 60 per cent increase in 14 years.

In 1940, there were 11 clerks per 100 workers in industry. By 1954, there were 16 clerks per 100 employes.

The annual wage bill for clerical help reached 25 billion dollars in 1954 and was still rising.

In the face of trends like these, any equipment that promises to make paper work easier, faster, more accurate and cheaper has a strong attraction for business. That's where the new electronic "data processors"—better known as electronic "brains"—are coming in.

Quite a few of the biggest "brains" are now in use by industry and the Government, and many more will be installed in the next few years. A much larger number of medium-sized "brains" also are at work, though the public has heard little about them. On the horizon, coming up for delivery to business in 1956, are still smaller and cheaper "brains" that are expected to find widespread acceptance in all kinds of businesses in years ahead.

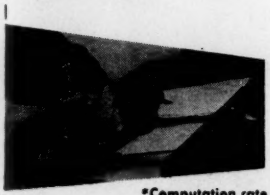
"Magic" ability. What "brains" do is this: They put the near-magic speed of the electronic tube to work, counting numbers or noting symbols. With that beginning, American engineers have created a new kind of machine that can add, subtract, divide, multiply, "remember" and check the accuracy of its own answers. American production wizardry now is bringing such machines within reach of ordinary businesses by making them available at competitive costs.

The biggest "brains," such as the very advanced Naval Ordnance Research Calculator built by International Business Machines Corporation, can make difficult computations almost instantly. As the illustration on this page shows, the "NORC"

**THIS PROBLEM IS EASY—
FOR AN ELECTRONIC "BRAIN"**

```
                    23689.1294.1062
                 X  867.1240.5106
                   142.1347.7646.3728
                 213.2021.6469.5588
                 473.7825.8821.2424
              23689.1294.1062
           1184.4564.7053.10
        9475.6351.7642.48
     4737.8258.8212.424
  2368.9129.4106.2
 165.8259.0587.434
 142.1347.7646.3728
 1895.1303.5284.96
 2054.1413.8599.0125.5052.1743.52
```

Electronic "BRAIN" can do 32,258 multiplication problems like the above in one second*... *with no errors*



A typical clerical worker did the above problem in 540 seconds... *and got the wrong answer*

*Computation rate of the Naval Ordnance Research Calculator, built by International Business Machines Corporation.

©1958, By U. S. News Pub. Corp.

can multiply 13-digit numbers at the rate of 32,258 such calculations per second. This is a special, 2.5-million-dollar "giant" brain.

More common, yet less publicized, are the big "brains" that business is using. These "brains" may cost from $800,000 to 1 million, or rent at rates from $15,000 to $25,000 a month.

These "brains" are already in use by around 40 of the nation's largest business concerns, including U. S. Steel, General Motors, Metropolitan Life Insurance Company, General Electric Corporation, to mention a few. And more than 100 additional big "brains" are on order.

In this class are the UNIVAC units built by Remington Rand, Inc., and the "700 Series" machines of IBM. Commonwealth Edison Company of Chicago is getting an IBM "702" next summer.

Scans bills. This machine will figure and print the bills for 1.8 million Commonwealth Edison customers in less than half the time required by the company's present equipment, and with about 270 clerical workers where 470 are now engaged. The "702" will "remember" the past record of a customer's bill, and, if the new one it is computing seems too high or too low, the "brain" will ask for a new meter reading.

Eventually, Commonwealth Edison hopes to have its new "brain" operating three shifts a day, and doing many things besides making out bills. Pay-check writing and inventory control are among the jobs lined up for the "brain."

General Electric already has a Remington Rand UNIVAC at work in the headquarters of its appliances division at Louisville, Ky. GE is using this "brain" to figure the weekly payroll for 4,000 employes. About half of these employes are paid on a piecework basis, which makes the payroll job very difficult.

GE plans to use the same UNIVAC on other chores, such as material control, sales and inventory reporting, production scheduling. One of the big advantages of an electronic "brain" is that it can be worked almost any number of hours, "resting" only for repairs and maintenance.

Rental "brains," too. There is a growing family of smaller machines that employ the "brain" techniques in a variety of ways to speed up office work. Remington Rand is offering "little UNIVACs," and IBM has its "650" machines, for example. IBM, which rents its machines to users, reports that more than 470 of its "650" installations have been ordered, or five times as many as the company expected to have on order by this time. This unit rents for about $3,500 a month.

The first "650" was delivered to the John Hancock Mutual Life Insurance

(Continued on page 52)

WHERE INDUSTRY ROLLS OUT THE BARRELS

St. Louis

A Great Place to Do Business

Hospitality is big business in St. Louis . . . home of the world's biggest brewery, producer of the world's largest selling beer. This brewery . . . plus three other major breweries with "home" offices and plants in St. Louis . . . produce over 8 million barrels of beer annually to make St. Louis rank third nationally in beer production from a central source . . . St. Louis, nearest major city to the U. S. center of population, is at the *center of activity* in business.

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Your association with First National Bank in St. Louis not only speeds your business transactions . . . it identifies you, as well. And with information provided by First National—whose directors hold key positions in St. Louis business—you'll find it's easier to plan ahead. First National is at the *center of activity* in St. Louis!

Inquiries are cordially invited. Address the Industrial Service Department.

1ST

THE FIRST NATIONAL BANK IN ST. LOUIS

1

FIRST NATIONAL BANK in ST. LOUIS

Member Federal Deposit Insurance Corporation

Should You Invest?

We always have had—and always will have — one answer to that: Yes, if you can afford the risks that are involved in any form of investment.

But take a good look at that little word "if", for unless you have adequate savings and adequate insurance coverage you cannot afford those risks.

Let's assume, however, that you do have extra dollars. Should you invest them now? Again our answer is yes. Mind you, we're talking about investing — about putting your money to work in a business that will pay you a substantial return over the years ahead. We're not talking about buying stocks today in the hope of making a profit tomorrow.

"But," you may ask, "Isn't the market too high?" That may or may not be true. We're not talking about the market . . . about whether stocks on the whole are too high or too low. We're talking about specific investment opportunities — the kind of opportunity that always exists in stocks or bonds for the man who wants to find employment for his surplus capital.

If that's the kind of opportunity you want to talk about, by all means come in to see us or give us a ring. Or write us a letter about your situation. We'll do the best we can to help you solve your particular investment problem.

MERRILL LYNCH, PIERCE, FENNER & BEANE

70 Pine Street, New York 5, N. Y.
Offices in 106 Cities

"Invest – for the better things in life"

Company in Boston last December. The company is using this type of "brain" in its extensive mortgage-accounting work. It plans also to use the equipment for figuring commissions that go to more than 7,000 agents around the nation.

Smaller "brains" are being readied for the market by a number of companies including National Cash Register Company. NCR expects to have some electronic computers that will sell for about $150,000, and still cheaper units are being designed.

All kinds of uses. This company plans to hook computers up to standard office machines, such as cash registers and adding machines, and thereby present a versatile electronic "office tool."

A department store of the future, for example, may use a typical NCR setup this way:

A dress is sold. The salesman "rings up" the sale on a cash register. The register not only records the sale, but also makes note, via punches on a paper tape, of the dress's color, size, price, style.

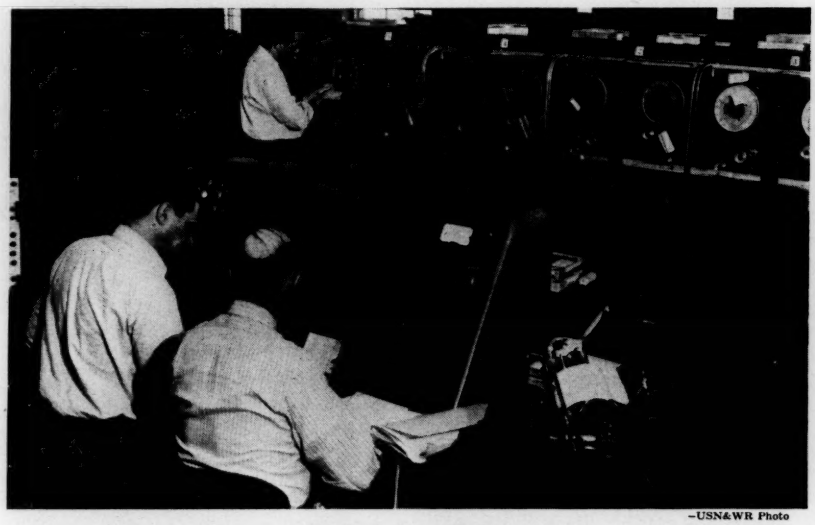
At the end of the day the tape from the cash register is fed into one of the new computers, or "little brains," which almost instantly sorts out and computes the data and presents a record of how many dresses have been sold that day, classified by sizes, colors, prices and styles.

The store's managers will know, much faster than now, what items are "hot" and selling fast, and what is not selling at all. Their equipment can be set up to compare the number of dresses of a particular style left in stock, with a reorder figure. If stock drops below this reorder level, out will pop a purchase requisition for more dresses.

These are some of the ways in which the science of electronics is being put to practical use in solving everyday problems of the business world.

Electronic "brains" made possible many of the calculations leading to hydrogen bombs. More than 20 UNIVACs are working away in Government on secret projects now. IBM "brains" guide atomic bombers and missiles. But the use of such "brains" to solve more common problems is only beginning.

The Chesapeake & Ohio Railway Company plans to use a big electronic "brain" in keeping accounts up to date on thousands of freight cars and their movements. Electronic "brains" are involved in new traffic-light systems. The Weather Bureau hopes that a giant electronic "brain" will enable it to predict weather more accurately.



–USN&WR Photo

UNIVAC IN ACTION
It can handle everything from pay checks to Government secrets

New jobs created. As business buys more and more "brains" and puts them to work, fears are rising that thousands, or hundreds of thousands, of clerical workers may lose their jobs. Industry's experts say the fears are not justified. Companies where workers are displaced by the "brains" are shifting those workers to other jobs. It is stressed that better machines, in the past, always created jobs for more workers than they ever displaced.

A vast amount of human work, and ingenuity, moreover, still are needed to set up an operation before an electronic "brain" can even get started. But it remains a fact that electronic "brains" offer business a powerful new ally in the battle with paper work—a battle that some businesses felt they were losing before electronics came to their aid.

...for special steels, too go to a specialist

Taming a balky TV set or calming a nervous radio calls for an expert. With *special steel* problems the story's the same... you need a *specialist* for practical, profitable help.

That's where Crucible comes in. For Crucible's *prescription-made* steels have solved industry's special problems since grandad's day. You'll find *Tool Steels*, for instance, to carve your designs out of ordinary steels... *Die Steels* to press and form other materials into useful shapes... *Stainless Steels* to fight back when corrosion attacks. The skill behind products like these makes Crucible truly the *nation's leading specialist* in special steels.

So come to Crucible for help with special steel applications... and for *all* your special steel needs. Your local Crucible warehouse or branch office is ready to serve you. Call them soon. *Crucible Steel Company of America, Henry W. Oliver Building, Pittsburgh 30, Pa.*

CRUCIBLE first name in special purpose steels

Crucible Steel Company of America

Interview with WILLIAM McCHESNEY MARTIN, JR.

Chairman, Federal Reserve Board

"DON'T BE AFRAID OF PROSPERITY"

How long is the new wave of prosperity going to last? Will Government step in to make things a bit tighter? What can a businessman count on as he looks ahead?

The man best able to throw light on these questions is William McChesney Martin, Jr. He heads the Federal Reserve Board, which holds power over money supply.

Interviewed by editors of *U.S. News & World Report* in their conference room, Chairman Martin makes these points:

- **People should not get nervous when times are prosperous. A balance can be held.**
- **Money will be kept in adequate supply.**
- **Speculation will be watched closely.**

Mr. Martin, 48, has been president of the New York Stock Exchange, president of the Export-Import Bank, U.S. executive director of the World Bank, Assistant Secretary of the Treasury. He has been Chairman of the Federal Reserve Board since March, 1951.

How the Federal Reserve System works—something with which few people are familiar—is explained in the interview.

Q Do you think there's a threat of inflation present now, Mr. Martin?

A As long as you have the supply of goods that we have today, and neither the supply of material nor of labor is overtaxed, it takes some time to build up an inflationary trend. Because when you go into stores today, you can usually find there is an adequate supply of the item that you wish to purchase.

Q Maybe it's an oversupply—

A Well, it's pretty difficult in a growing economy to be sure it's an oversupply. Last year we certainly had an imbalance in inventories—

Q And demand was declining—

A That's right. We had an imbalance in terms of production and inventories, and that was the signal that some business decline was bound to come about if we were to sustain prosperity. We couldn't continue to produce, indefinitely, more than could be sold.

Q And now that decline is over and things are moving up?

A I won't make any predictions about the future, but it seems to me quite clear that the decline which began in mid-1953 halted a number of months ago. I don't think I make any prediction when I say that it's perfectly evident today by all the facts and figures and statistics that there has been more than seasonal recovery during the last few months. How long or how far this current recovery will go is still in the lap of the gods, but I think we are moving in an upward trend in the economy today, and you'd be indulging in idle hedging to say that we aren't.

Q For the layman, what would be the signs of inflation to watch for? Would it be a sharper-than-normal increase in the money supply? Would it be an increase in prices?

A Both.

Q Wouldn't the increase in the money supply normally come first? Doesn't the rise in prices lag behind? What does a layman watch for?

A It's very difficult to be precise about it, because in each period of time each set of circumstances is different. I think that you'd find that an excessive increase in the money supply has been a signal that we could be in danger of inflation. I'm not saying that we are in danger now—

Q Are you creating that added money supply?

A Yes. We cannot duck responsibility for having added to the money supply. We started out by recognizing the decline in business activity and cushioning that decline by increasing the money supply. I'd have to check the figures, but the increase in the money supply in the last six months has been very substantial.

Now, the seeds of inflation take a long time to germinate. We are faced with the problem of not wanting to nip recovery in the bud—if I can use that phrase—but also wanting to nip inflation in the bud.

Q Is that what the situation was in '53—we thought that inflation might be coming? There weren't any actual price rises at the time the Federal Reserve was applying the restrictive policy, were there?

A Well, the situation in '53—as I testified a number of times before congressional committees—I think was handled very satisfactorily. Before the spring of '53 we had what I think was a bubble on top of a boom. There was a tremendous amount of confidence shown by business in late 1952, and quite a bit of business investment in plant and equipment was coming up all at once.

So there was a tremendous expansion of business activity

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Good Times Do Not Have to Result in Boom and Bust . . . Growth Can Go On . . . Resisting Inflation and Deflation

that carried into the following spring. Now, our technical measurements of the money supply during that time were, I think, complete and accurate—the money supply was in line with business needs. Where our judgment missed during that period was not in respect to economic needs, but in respect to public psychology. The expectations of the public got away from us. Now, human nature is another factor that you have to deal with in every one of these periods.

Q But do you actually need to see either an inflation of prices or the threat of an inflation? Could you act because you see an excessive use of credit with a rate of spending in the economy as a whole that seems unlikely to be sustained?

A We certainly could and should, but we've also got to be very careful about doing that.

Q Didn't you just do that within the last couple of months—start giving serious attention to the building up of pressures without open signs of inflation?

A When business is expanding as it has been recently, obviously it needs less stimulus from us and there is less desire on our part just to supply reserves. We're going to let the law of supply and demand work.

Q And that's what you've done on through to December, is it not?

A Well, recently.

Q You spoke of some mistakes made in '53. What were some of those mistakes?

A In the spring of '53, we took a look at the over-all economy and said: "We have to contend with a number of factors for the balance of this year. Now, let's just try to estimate what an adequate flow of money and credit for the balance of '53 would be."

We took a look at the needs of the Treasury. We can never omit the needs of the Treasury from our considerations—Treasury financial operations are large, and they have an important impact on the condition of the economy as a whole. At that time, the new Treasury team that had come in—and we had worked very closely with them, as with their predecessors, and they had given us excellent co-operation—faced a heavy financing task, and had to borrow far more than they had expected because the Government deficit was going to be substantially greater than had been thought in January and February. The deficit was going to be 5 billion dollars greater than we had anticipated in February, and the Treasury's borrowing needs would be increased accordingly. That was an important item. That had an effect on people's expectations of the money supply.

We also took a look at what would be the seasonal requirements of business. One of our responsibilities is to accommodate industry, commerce, agriculture and business in their seasonal needs. That's one of the reasons we were created. And we tried to make estimates.

Let me mention a figure I've cited a number of times. I asked a number of members of the New York City Clearing House to give us what they thought the normal credit requirements would be for the balance of the year. Most of them thought that between May 1 and December 1 they would increase in the neighborhood of a billion or 1.5 billion dollars. Actually, the demand for credit in that area alone—and what happened was just about proportionate for the whole country—decreased instead of increasing. And it declined 250 million. So the demand for credit, measured against that expectation, declined by 1.25 billion dollars.

So you can see what a problem there was in foreseeing monetary needs.

Then we took a look at the psychological aspect and we also took a look at the growth factor. Now, at that juncture there were published reports that we used the figure 3 per cent for growth. As a matter of fact, we are not committed to any given per cent, but some such figure may have entered into our thinking at the time.

Now, we figured that, if our projection was roughly right on the flow of money and credit, that the best thing for the economy would be for the money supply to move up only with economic growth and, beyond that, for the forces of supply and demand for credit to operate naturally. If business improved, the rising demand for credit would result in interest rates going higher; if business declined, the falling demand for credit would cause interest rates to decline; if business stayed about steady, interest rates would stay steady.

Now, you ask me about an error in judgment, and I say that in the spring of 1953 our technical judgment with respect to the amount of continued growth needed in the money supply was quite correct, in retrospect, but there was a period, a very short period, where the expectations of the financial community with respect to a tightening money supply got away from us—got so pessimistic that it looked for a few days as though credit might become almost unavailable in a few isolated financial sectors. To

(Continued on next page)

—USN&WR Photo

WILLIAM McCHESNEY MARTIN in the conference room of *U. S. News & World Report*

. . . Blame Federal Reserve for '53 recession? "Certainly not"

me, the cardinal sin of a central bank does not lie in money being costly or cheap—the force of demand pressing on supply determines rates—but in letting money become unavailable at any price. We must never let that happen. Money must always be there—at a price, of course.

Q You mean people just couldn't get money? Isn't that what the bankers call a panic?

A Well, it wasn't anywhere near that bad. I don't want to magnify it. It wasn't at all like that. And, as I said, points of real scarcity were few and isolated. But it was during that period when we changed policy quickly, and I don't think that scarcity lasted long enough in any place to be an important factor. I'm admitting that conditions didn't measure up to perfectionist standards, because we couldn't foresee the important factor of human psychology—of fears outstripping facts.

Q Were you fully informed of the time and the plans for the 3¼ per cent bond that the Treasury offered in the spring of 1953?

A Oh, yes. We keep the Treasury informed on our monetary policy and they keep us informed on their debt-management policy.

Q This bond was a sort of blood clot in the system, wasn't it?

A That issue played a part in the psychological reaction I mentioned—a reaction of fear about money conditions tightening.

Q And you straightened that out and got the circulation going again—

A We acted to counteract the fear psychology just as rapidly as we saw it.

Q You don't take blame for the recession?

A Certainly not.

EASING THE TENSION—

Q Just what did you do at that point when you realized that something was wrong?

A On May 6, 1953, the Open Market Committee gave instructions to start purchasing Government securities immediately. In this way, during May and June alone, we added 900 million dollars to bank reserves so as to relieve tension in credit markets. On June 24 we announced a decrease in reserve requirements, freeing nearly 1.5 billion dollars in reserves for loan purposes. And we supplied reserves through the balance of the year almost steadily on a week-to-week, month-to-month basis.

I don't think there's been any legitimate complaint about the ease of the market or credit difficulty since that time.

Q Do you have a responsibility with other parts of the Government for economic conditions?

A As the System has evolved, it has gradually taken on, with the development and growth of the country, a shared responsibility with other Government agencies for economic stability and growth.

Let's take the Employment Act of 1946 as an example. We accept our share of responsibility under that Act to try to use money and credit to help bring about and sustain maximum production and consumption and employment. Now, that does not, as we envisage the Act, and as I have testified before congressional committees, involve us in an obligation to promote inflation as a means of providing employment. The reason for that is that I don't believe inflation will sustain employment. I believe that instability in prices and the things that go along with inflation cannot lead to anything but ultimate unemployment.

Q Then you are going to resist inflation?

A I am going to resist inflation and I'm going to resist deflation.

CREDIT AS A STREAM—

Q What is the damage if you do have too much money?

A Let me try to convey to you first, in simple terms, what we endeavor to do about the money supply in this country. We want the flow of money and credit to be like a stream, or river, as I picture it in my mind. This stream or river is flowing through the fields of business and commerce. We don't want the water to overflow the banks of the stream, flooding and drowning what is in the fields. Neither do we want the stream to dry up, and leave the fields parched. We understand that there has to be irrigation and drainage. But we do see the flow of money and credit as something that must be related and adjusted to the business economy's real needs, growing, of course, with the growth of the country so that the relationship will be sustained.

Now, our job is to see that there is adequate money for the growth of the country, but that there is not an excess of funds which will "slop over." And we don't want these funds to dry up, either.

Q What happens when the money supply "slops over"—what happens to the economic system then?

A It creates inflation. It stimulates a flow of spending that is greater than the flow of goods and services. Too much money chasing too few goods, with rising prices as one result, and, as another result, waste and extravagance, incompetence and imprudence—all the elements in the economy which cannot be sustained. The jobs that get created in the upward spiral are not sustainable. When the boom busts, and the spiral turns downward, these jobs are wiped out—and others with them.

Q What would be a sign or indication of inflation to you?

A I can't give it any better than I have—that when the money stream overflows the banks, it has a tendency to drown some of the plants on either side. We have to have drainage and irrigation, using that agricultural simile, along our streams. We don't get rich by sitting on the banks of the stream and just dipping into the water, or by letting the water flood our fields. One sign of inflation is speculative activity carried to excess.

Q Couldn't there be speculation in mortgages and credit of that type as well as in commodities?

A There certainly can be.

Q You said that you felt an obligation to the Federal Employment Act of 1946, and you've spoken about what you have to do to help the Treasury finance, and so on. That would give the impression that the function of the Federal Reserve is that of a watchdog or a vigilant policeman or even a regulator of the credit of the country. Just where does your function start and stop as a planned manager of the country? You are not actually dealing with the fundamental employment conditions at all, are you? You say employment creates a certain obligation of credit, and you supply it, or you do within reason. But you don't deliberately set out to do that, do you?

A Well, in so far as we affect the money supply, we do.

—United Press

NEIGHBORHOOD BANK: ". . . the banking system can lend more dollars than it has on hand"

Q Take employment. That Employment Act obligates you not to provide employment but to see to it that credit is made available so that employment is not restrained. How can you relate your function to employment?

A I don't think we can directly. But if there is an inadequate money supply, it's going to be one of the deterrents to employment.

Q Won't the demand for employes have to rise first, and aren't you obliged merely to see that when the demand is there it shall be adequately fulfilled? You don't go out deliberately to stimulate the hiring of people, do you?

A We would if we could. I don't think we can.

Q Well, if you tighten money so much that someone who wants to build an apartment house cannot get a loan, there's that much unemployment—

A That's right—

Q So that you don't deliberately stimulate employment, but you may furnish the credit that will permit someone else to build up property. You don't go out the way the WPA did to create employment, though, do you?

A Oh, no, not in that sense.

Q Then you aren't looking around for opportunities to increase the employment of the country. The demand is there, and you just see to it that it's satisfied, is that it?

A Well, we try to bring about credit conditions that will foster lasting employment. We accept our share of the responsibility.

Q You don't have any responsibility to provide employment in the country?

A Not directly. But we do have a responsibility to see that the flow of money and credit—

Q Isn't it rather that if employment conditions can be created, you are there to see that the amount of credit is available—but it must be sound to begin with, must it not? You certainly wouldn't provide credit for an unsound condition which might employ a lot of people, would you? That's inflation—

A Sometimes the cost of credit would determine whether a given project would go ahead.

Q What is the difference between creating this inflationary condition through unsound action and providing credit for the use of employers who are going to employ people? Unless the employment conditions are created soundly first, you aren't interested, are you?

A I don't think you can separate them precisely. One of the biggest problems that I think we have right at the present time is the difference between inflation and prosperity, and one of the things that concern me is that people sometimes become frightened at prosperity, and I see nothing to be frightened of in prosperity. That's what we're seeking all the time.

Now, inflation threatens when you're borrowing so much of your advance money and creating unsound values that you are heading for deflation. But normal growth that can be sustained is exactly what our objective and purpose is.

Q Then you must examine conditions and determine whether they are sound conditions or unsound conditions before you begin to supply credit—

A Yes, indeed.

Q And right now aren't you hampered by the fact that you've lost some means of control, such as over installment credit? You have no control over what happens in the use of installment credit, have you? That authority was taken away—

A Congress repealed Regulation X and Regulation W. We have a special control only over stock-market credit—

Q And that's only on margins, but there are other ways to get credit on the stock market than margins—

A Yes, I think there probably are. But I would say this, that in a peaceful world—and remember we're dealing in relatives, because we may never again have a peaceful world—but in a "relatively peaceful world," let's use that phrase, the most effective control you can have on the supply of money, I think, is the general control.

While installment credit and real estate credit and stock-market margins might be supplementary, I don't think that they can ever obviate the necessity for a quantitative and qualitative general control.

Q Would you like to have that authority now?

A I wouldn't seek any additional authority.

Q Take mortgage financing, now—

(Continued on next page)

. . . "The world mechanism of prices is working"

A Well, I have been somewhat apprehensive that there are too many houses sold with no down payments—not because of the no-down-payment itself, but in terms of the mores that it may implant in the people. There was a young couple I met the other day who had an opportunity to go to California. I asked the husband what he would do about his house if he decided to go, and he said, "Well, I'd just give the house back to them!" Well, now, that's not home ownership.

Q It's rent—

A Yes, that's right.

Q Another thing which has recently come out is that insurance companies are now using mortgages as collateral to borrow money from banks to invest in more mortgages—

A Well, I am uneasy about that.

Q Is there any power in any agency that can do anything about a situation of that kind?

A Not directly. But, again, if you can bring to bear a general credit control, and you have the courage to bring it to bear, you can have some influence.

WATCH ON MONEY SUPPLY—

Q You have said that the money supply had been increased during this recent period. Do you feel that it's now increasing just enough to take care of normal growth, or is there a greater increase than that?

A I think it's at a very close point. That's why I say we have to watch it very carefully. The money supply grew quite substantially during the past six months partly as a result of the aggressive Federal Reserve policy. I've already indicated that I think that the decline in business leveled off some time ago and you are now in a gradually rising business picture. That doesn't mean that I am saying that this will continue indefinitely—I don't want to be a forecaster here. But we are moving up.

Q If you follow your analysis before, if business is now expanding, after making some allowance for the normal increase in money supply needed, wouldn't it be your natural policy to start reducing the money supply?

A Well, leaving out seasonal changes, the money supply was not reduced in that 1953 period we talked about, when money became relatively tight. Our policy will be tailored to the course of business developments. Rising demand for credit recently has had some effect on interest rates though the money supply has been at a record high.

Q Might not private banks start increasing the money supply through the rise in loans? Might not bankers themselves take up that task where you'd leave off?

A Bank loans always do increase the money supply because they add to deposits, and the money supply is made up by deposits and currency. Of course, if banks don't have adequate reserves, they can't do it.

Q The banks do have large reserves now, don't they?

A Well, with the demands for credit rising, their reserves are not quite as apt to be what they were before. They can, of course, sell some of their investments to get funds for lending. There's always some shifting back and forth between loans and investments.

Q What about the question of the qualitative controls you might have against bank credit? You've referred to no-down-payment mortgages, and so on. Does the Federal Reserve have any way, perhaps through its bank examination or auditing, of suggesting to a bank that certain types of things would be better left undone?

A The sole purpose of examinations is to determine soundness. We never try to execute monetary policy through our bank examiners.

Q Or any other way?

A Well, I won't say that we don't, from time to time, have talks with people. But, as to a general policy of moral suasion, I have great hesitancy in a country as large as this of knowing where you'd start or how you'd carry it through on a fair basis.

THE CHANGING ECONOMY—

Q Aren't some of these things getting out of ordinary channels? For example, in installment-credit financing, it used to be done largely through the banks, and now it is done largely outside the banks. That is, the finance companies don't come to the banks as much as they used to. They're using other ways of picking up money. They're selling their paper outside—

A Well, the banking system is still the ultimate source of that credit. A lot of changes are going on in the economy today, and we won't really know where they're leading us for a number of years to come.

Q What types of changes?

A For instance, savings and loan institutions today have more resources than the savings banks of the country. I'm not saying that's cause for concern, but it is a shift.

Commercial-paper rates were running substantially lower than the prime rate in New York for quite a while, and there was quite a bit of business being done in commercial paper. I believe that the bankers' acceptance market will open up for international finance before long. That was one of the things that the Federal Reserve helped to develop years ago. We are getting a better climate of international trade today because there's a tremendous improvement in business, based on the use of the price mechanism, in all of Western Europe and in South America, despite some isolated cases of trouble.

The general price mechanism is working, the world mechanism is working.

Now, all of this is going on, and we should do what we can to see that it's sound as it develops, but it's up to free enterprise to develop it.

Q You're adopting a policy that is supposed to bring about higher interest rates and make it more difficult to get the loans, or make borrowers pay more for them. Isn't that the situation now?

A No, not a bit. The situation at the moment is that the law of supply and demand seems to be working in the direction not of making it more difficult for them to get loans, but of making them cost a little bit more.

Q But you're the one who makes the judgment as to whether or not the free play of supply and demand will operate that way, aren't you? If you wanted to, you would adopt a different policy, and supply and demand wouldn't operate quite the same way—

A We could fail to put the brakes on inflation, but I think that would ultimately lead us to a serious deflation.

Q Whenever interest rates do rise, is that an indication that the Federal Reserve Board fears inflation—thinks there's a possibility of inflation?

. . . "Interest rates can rise without any inflation"

A No. Interest rates can rise without any inflation occurring at all. They can be a part of prosperity, just like a normal rise in price supported by values.

Q And yet the rise would be influenced by the amount of reserves that you provide—it could be influenced by a prevalence of supply of reserves. You mean that the law of supply and demand could be allowed to work, with the Federal Reserve determining supply?

A Well, that's where you would get into difficulty always. If you try to make an artificial interest rate, instead of focusing on real economic needs, you will have an unrealistic supply of money. Now you can do that for a certain length of time, but then the payoff comes.

I am one of those who sincerely believe that inflation will not work, and that if we supply funds in such volume that the interest rate or cost factor is nullified, and people are getting those funds without having to go through the business process of making a judgment according to how much they pay for credit, then we may create a period of great ebullience, not only in the stock market but in all other activities.

Q But might you not have a period in which there was not inflation in which the level of interest rates would be determined by the amount of reserves that you provided?

A If you're thinking of demand as well as supply, that would be normal functioning.

WHEN FRB SAYS "DANGER"—

Q Aren't you merely the authority that watches the danger points? Don't you merely prescribe the danger points?

A That's right.

Q You allow it to function up to a point, and then you say: "This is the danger point—you might fall in." And you pay a penalty if you're wrong—

A That's right.

Q One of the dangers to worry about seems to be the condition of credit in real estate, and yet the terms there are basically set by Congress and by the Administration, aren't they? The only reason people can get no-money-down mortgages on houses and relatively low interest rates is because Congress and the Administration have passed a regulation—

A That's not a Federal Reserve responsibility.

Q Have you no influence at all over the housing and home finance in a statutory way? Does the statute provide that you be consulted?

A When we had Regulation X, under which the Federal Reserve set a minimum down payment and maximum length of time for paying off mortgages not insured by the Government, the Federal Housing Agency had to consult with us about the terms on FHA mortgages. But Regulation X went out the window a couple of years ago. Now, I wouldn't be truthful if I didn't say that we have an opportunity to talk with the FHA from time to time about this, but we don't have the slightest control over the terms.

Q Actually hasn't the Government a kind of split personality today? On the one hand, it has decreed very liberal terms for real estate financing, which is one of the most buoyant segments of the economy, and, on the other hand, the Federal Reserve through, let's say, its let-alone policy, is going to permit a condition to develop in which it will be perhaps more difficult to get real estate credit on those terms. Isn't that right?

A I won't make any comment on what will happen. You can always make a choice as to how you'll use credit. That's where the market play comes in, you see. The most interesting thing in the period immediately following the Treasury-Federal Reserve accord [on credit policy, in March, 1951] was when the business process began to work, when the X Insurance Company had to decide whether, if it wished to finance at such-and-such a rate, it would be good business to raise the money by selling some other investment and assuming a different risk. When that business process began to work, you had a rapid change in the whole economy, and in the direction of more efficiency.

IF BOND YIELDS RISE—

Q Interest rates could rise, increasing yields on Government bonds, to the point where bond investments became more attractive than real estate. In that case, if the Treasury people decided to go into long-term financing, they could dry up the supply of mortgage money pretty quickly, couldn't they?

A Well, they can. And sometimes this rate process comes to work, just as you point out. Take, for example, the securities markets. It's quite different making decisions when you have stocks that yield 5½ per cent against bonds that yield 2¾ per cent, and when you have a 4¾ per cent on stocks against 2.90 per cent on bonds. At some point, that sort of closing of the gap begins to change the flow.

Q Are you concerned with the soundness of this real estate financing?

A I don't know enough about it to pass judgment.

Q That is, these easy credit terms that are being given—

A My feeling at the moment is general, and is derived more on the basis of the mores I've been talking about than on knowledge of specific situations.

Q Of course, we have to experiment in a growing economy with what we call "easy terms." Sometimes they prove to be very sound terms. There was a time when a mortgage on a house was given for three years, and you had to renew it in three years or five. The idea of a 20-year mortgage or a 15 was considered ridiculous—

A I would like to make this the over-all point: The Federal Reserve Board, for example, really doesn't have enough information—and I think we do a good job; I'm not trying to run down our staff—really doesn't have enough information and knowledge to make blanket judgment on the conditions in any particular business.

Every day that I've been at the Federal Reserve Board, I have felt concern about whether we have adequate information or knowledge about any of the many business fields we have to think about. We have responsibilities in our field, and I can express concern about some sectors of the economy in a general way, as I have here. But if you believe in the general concept that I'm talking about, then I think we'd better stick to our own knitting and not try to operate the whole economy.

Now, I said something a year ago, because there was a lot of discussion about it at the time, about what we specifically can do in terms of halting a recession. I used the football season as an illustration. I said we could do a lot to see that the goal posts were in good shape and that the referee or umpire was on the field, but we couldn't get out in the field and play.

(Continued on next page)

. . . "We want a healthy, functioning securities market"

I have to resist all the time having representatives of any given industry come to me and say: "What would you do in such and such circumstances?" I must truthfully say to them, unless I've lost my balance completely: "Well, don't come to me, because I'm just about the last man to try to tell you what to do about your particular problem. I don't know enough about it—I'm too ignorant."

Q Yet, right this minute, the comments on Capitol Hill imply that you have some power or obligation to see to it that the stock market doesn't run away. What is your obligation to the stock market?

A The stock market is a difficult point. Although I have lived with it most of my life—

RISK OF FLING IN MARKET—

Q You were president of the Stock Exchange for a while—

A The authority to set margins limiting the use of credit in buying stocks was given to the Federal Reserve Board to prevent excessive use of credit for that purpose. The people who were working on the law granting that authority, from my experience at the time in watching it develop, seem to me mostly to have had real worry and concern about a particular point—that people would be taking a fling in the market on credit, and, as a result, would not only lose their equity through lack of knowledge, but also would end up owing their brokers money. It's happened repeatedly—and it was spectacular in the 1929 period.

Now, we do want a healthy, strong, functioning securities market. I do. I consider it an important ingredient of capitalism. But we also want people to realize that there are inherent dangers. How you administer that sort of operation, I don't know. It's very easy if you see an obvious danger signal in the flow of credit—in 1929, you had 8.5 to 9 billion dollars of credit flowing directly into the securities market.

Today it isn't easy to measure quite as well, because there are a lot of ways of getting credit that may go into the exchanges.

You have all sorts of facets to the market. I don't think we have any illusion in the Federal Reserve Board that we have the wisdom to control the prices of thousands of securities.

Our recent action was in the nature of highlighting the point that you can't always be sure that, if you had a severe break, you wouldn't lose your equity and owe your broker in addition. Our recent action, therefore, was in the nature of a warning about buying stocks on credit. It was not aimed at setting prices—it is the fundamental factors of business that determine prices, at least in the long term.

I wish the market acted the way we'd like it to act all the time, but in a free society things won't act the way you want them to all the time. I think the one thing that probably came out of this action was an indication of what has been obvious to everybody sitting around this table and to the Federal Reserve Board—and we are no smarter or different from any others—that, since the decline in business activity has halted and we have a real improvement in business conditions under way, our problem may be one of seeing that we don't have overspeculative enthusiasm that could halt a sound movement toward prosperity.

We have to guard against going overboard in one direction or another. Opinion can swing in strange ways. As I commented earlier, some people seem to be scared to death of prosperity. They work like slaves to get it, and when they get it, they're scared to death of it because they say there may be hazards in the future. Well, there always are.

Q Is the day of high interest rates such as we had in the '20s gone forever?

A I would say I hope so. I hope so because I sincerely think that we ought to have as low interest rates as we can have without inducing inflationary pressures, because I believe you'll have a greater formation of capital.

Q Then a rise in interest rates would be an indication that you expected inflation, or would high interest rates come as a natural course when the demand for money increases?

A If you have a strong boom in business, the resulting increase in demand for credit naturally brings about higher interest rates. If that equilibrating quality of interest rates is not manifested, then the boom gets out of hand and brings about a deflation that inevitably upsets the prosperity we're striving for.

Q It is a freedom to move within a narrow range—

A That's right.

Q What do you think of the suggestion of John D. Clark, former member of the Council of Economic Advisers, that reserve requirements be lowered now, so that the Reserve Board would have more leeway to use a brake in the future, if a brake is needed?

A I think that has to do with this question of getting a new reserve-requirement basis, which would eliminate the purely geographical system. But, going beyond that, it so happens that for a decade and a half we've been dominated by war or the economic consequences of war or preparedness for war, and during that period we've come to rely more on Government expenditures rather than on the private segments of the economy to keep business and employment at a high level.

Well, now that we are shifting more of the task to the private segments of the economy from Government—and we're not going to shift all the way—you have to have greater reliance on those private segments. That's why I've been very glad that we have been able, consonant with credit policy, to reduce reserve requirements twice in the last two years. Last summer we reduced reserve requirements, and then through sales of securities absorbed part of the reserves thus released so that the availability of reserves would be harmonious all the while with the demand for credit, and with growth in the economy.

Q In a broad sense, you cannot correct the mistakes of the Executive or the mistakes of Congress, can you? You have to accept the conditions created by those mistakes, don't you?

A We have to accept conditions as they are, regardless of cause.

RESTORING MONEY'S VALUE—

Q And deal with them as best you can as they arise—

A That's right. For instance, after inflation has taken place, and the purchasing power of your money has been cut in two, as ours was following the war, you cannot restore the purchasing power of money to its former or prewar state through monetary policy—that is, you cannot slash back the volume of money to make each dollar worth more. That is not, in my judgment, a function of monetary policy.

The only way that purchasing power can increase is by increased productivity and production, not by monetary means.

. . . "Preventing money panics is part" of Reserve's job

Q Which brings us to the $64 question: If all these things are dangers that we see, what are you going to do if we have a big war? How are you going to exercise any controls over credit, inflation or anything if we have a war? Will the country suffer bankruptcy the day the war breaks out?

A No. You can do amazing things in war. You have problems of organization. The Defense Mobilization Board has been progressing with that We've done a lot of work on what you'd do if an atom bomb were dropped in New York City or in Chicago, and you can make a certain number of plans.

My own view is that it's fine to do that planning, but it will probably have to be altered when the time comes, because you can never foresee precisely what will happen. However, I think you'll find that most people rise to the occasion of a war. I would think, in retrospect, that in the last World War the public would have been willing to pay even higher taxes than we had—

POWER OF PATRIOTISM—

Q This debt limit they talk about, whether it should be 3 or 4 billions more. If a war happens, it could go up 150 billions in a few months—what happens to economic theory under those conditions?

A In war, ordinary rules go out the window. You just have to adjust as best you can. I think you have to use every weapon in a war. That includes patriotic feeling, meaning public willingness to accept burdens and to make sacrifices. That is a powerful weapon, but we have not always had the courage to use it—to ask the people to accept not only price and wage controls, but also rationing, because it doesn't seem politically feasible.

Maybe that's where we made a mistake—I say "we" because I share in the responsibility—in the Korean war. You can do everything when a war comes. It doesn't mean that it doesn't give you an awful headache, and you may have nothing much left afterward.

But you can do a lot of things when your heart and soul are in winning the war.

Q Coming back to the credit system, how many people in the country, do you suppose, have a really thorough knowledge and understanding of how it works?

A Well, I think a lot more than you realize understand the fundamentals, but I don't think the public is interested in the techniques of central banking. Take the question about multiple expansion of bank reserves—how the banking system can lend $6 now on the basis of $1 in reserves. You have to take a blackboard and explain that step by step, and few people would remember exactly how it worked out. I find it hard to remember myself. So does the average banker, who's out trying to make a living—he's a business getter, and once he gets through his head an academic exposition of that kind, he forgets all about it and thinks primarily of getting new business.

But in a subconscious way he does know the answer. This is a complex field, in its details, but a great many people do understand at least the basic principles.

Q Just how would you define the function of the Federal Reserve Board, Mr. Martin?

A I think of the Federal Reserve—and I've expressed it frequently—as a trusteeship which has been created by the Congress. Under the Constitution, the power over money resides in the Congress. The Congress, in order to exercise that power, established the Federal Reserve System because the job is one that can't be carried out by a body of several hundred members. Back in 1913, when the Federal Reserve Act was under consideration, the Congress had a clear mandate from the people that it exercise its monetary authority, because we had had a succession of money panics that had created a need for some authority.

And so Congress delegated to a trusteeship which it established, the Federal Reserve System, its power over money, under a trust indenture which is the Federal Reserve Act. I like the concept "trusteeship," because I think we all understand it.

Q Do you feel you have the power to prevent panics—is that what your principal job is?

A Our principal job is to regularize the flow of money and credit. Preventing money panics is a part of it.

TWO KINDS OF MONEY—

Q When you talk about money, what do you mean? Is that just currency?

A No. When we're talking about money, we're talking about two types, really, to the average person. We're talking about currency in circulation and money in the bank—pocket money and checking-account money.

Q The deposit money is in the bank, such as savings accounts and checking accounts?

A That's right.

Q But you don't add to savings accounts or individual checking accounts—

A Well, in the Federal Reserve System, we are given the ability to use the public credit to create money so as to provide the total supply of money and credit needed to foster a healthy, growing economy, as free as possible from inflationary or deflationary pressures. But we do not, of course, "give" money to anyone or control the distribution of money among individuals.

The authority we have to create money is directed toward general conditions, and even that is not an unlimited authority, because the Federal Reserve Act puts a specific limitation on our liabilities for notes—that is, for the currency which we issue—and for the funds that our member banks keep on deposit with us as reserves. The Act states that these notes and deposits together can never exceed four times our holdings of gold certificates. So, we're limited to that. Every week we issue a statement of the condition of the Federal Reserve Banks, and at the bottom of that statement is shown the current ratio of gold certificates to Federal Reserve notes and deposits.

Q What is that ratio now?

A That ratio today is about 45 per cent, although under the law it can go as low as 25.

Q How much in gold certificates is there, roughly?

A There are about 21.5 billion dollars in gold certificates.

Q And your notes and deposits could be four times that amount?

A Yes, legally, they could be. But in fact they are far less.

Q Those gold certificates represent gold which is at Fort Knox and in the U. S. mints?

A That is correct. The Treasury keeps the gold there, but issues gold certificates to us. From the standpoint of the money supply, however, the point that matters is that an

(Continued on page 124)

EASIER TO GET AWAY WITH MURDER?

New Rule on Insanity May Open Loophole for Crime

Is it going to be easier now for a criminal to avoid prison by pleading insanity?

This question is being asked by authorities throughout the nation as a result of a new rule, laid down by a Washington court, for testing a defendant's sanity. Under this rule, convictions are being overturned, defendants are being set free in case after case in which insanity pleas are involved.

Not all those acquitted as insane wind up in asylums, either. Some are going scot-free.

You can see here what this new rule is, how it is working, and what it may mean if it is adopted in courts across the country.

Police testified that they caught Maurice Jones standing lookout while his two companions robbed the safe of a Washington, D.C., church.

Psychiatrists told the court that Jones knew right from wrong, and that he was not the victim of an "irresistible impulse."

Under legal rules that prevailed for a century, those two tests would have been enough to knock down Jones's plea of insanity. He could have been found sane, and, if convicted, he could have been sent to prison.

Jones, however, is free.

Jones was acquitted as mentally irresponsible. Why? Because he was tried under a new rule for determining insanity in criminal cases.

This new rule now is stirring controversy across the nation. Judges, lawyers and psychiatrists are divided in the debate. Some say the rule provides a more scientific and precise legal test of insanity, contributes a much-needed clarification of a problem that has plagued courts for many years.

Others say the rule is likely to prove a loophole that will make it easier for criminals to avoid prison by pleading insanity, perhaps enable them to get away with murder, and will turn dangerous killers loose upon society.

What the rule means was stated this way by the Washington, D.C., Court of Appeals: "It is simply that an accused is not criminally responsible if his unlawful act was the product of mental disease or mental defect."

Until the D.C. Court of Appeals laid down this rule in reversing the housebreaking conviction of Monte Durham last July, there had been but two tests for insanity in a criminal case: Did the defendant know the difference between right and wrong? Or was he compelled by an "irresistible impulse" to commit an act he knew to be wrong? If he did know right from wrong, and was not the victim of an "irresistible impulse," he was presumed sane and responsible for his acts, and could be punished.

Convictions reversed. Now, the rule laid down in the Durham case provides a defendant with another legal escape. He may be proved to know right from wrong, and need not have been impelled by an irresistible impulse. But if psychiatrists find that he committed the crime because of some other symptom of mental disease or mental defect, he is legally not responsible.

How this rule works in practice is being seen in Washington courts, where it has been applied since July. The D.C. Court of Appeals in the last seven months has overturned lower-court convictions in case after case in which insanity was pleaded as a defense. Lower courts, following the new rule, have acquitted as insane some defendants who, lawyers believe, would have been held sane under the old rules.

—Wide World

THE ARREST
In courtrooms: new problems

It is being suggested that thousands of defendants will be able to avoid prison if courts across the nation follow the precedent set in Washington. And, some fear, not all those acquitted as insane will be committed to mental hospitals. Many may remain at large.

In the case of Maurice Jones, for example, psychiatrists testified that he had the mentality of an 8-year-old, although he was 19. This was regarded as a mental defect, under the Durham rule, so he was acquitted. Three other charges against him were dropped. But when the Government tried to commit him to an institution for the feeble-minded, Jones demanded and got a jury trial on the commitment proceedings. The jury refused to commit him, and he is now free.

In another Washington case, witnesses testified that R. L. London broke into a grocery store and was caught on the scene. Two months later a psychiatrist examined him. At London's trial last October, the psychiatrist testified that London was insane at the time he examined him, but was now sane enough to be tried. When asked if London was insane at the time the store was broken into, the doctor said he did not know.

Judge Henry A. Schweinhaut, one of the lower-court judges whom the Court of Appeals had reversed recently on insanity issues, directed the jury to acquit London on the ground that he was "not mentally responsible" when the act was committed.

"A new era." Judge Schweinhaut made this comment: "The defense of in-

sanity is going to be used by every other defendant that comes into this court. We are embarked on a new era."

London, like Jones, is now free, neither in jail nor in a hospital.

Acquittals do not always result, even when the new rule is applied to insanity pleas. Willie Lee Stewart found that out just last month. Stewart, 31, walked into Harry Honnikman's small grocery store in Washington on March 12, 1953, just before closing time. The grocer, his wife and daughter were in the store.

Stewart drank a bottle of soda pop, then drew a gun and muttered, "This is it."

"Give him the money," the daughter cried.

"Do you want the money?" Mr. Honnikman asked.

Stewart did not reply. He fired once, and Mr. Honnikman dropped dead.

At his trial, Stewart pleaded insanity, but he was convicted and sentenced to death. That was before the new rule had been announced. His appeal was heard just two weeks after the Durham case. The Court of Appeals ordered a new trial for Stewart under the Durham rule.

In his second trial, despite the Durham rule, Stewart again was found sane and convicted, and was resentenced to death.

Besides the Durham rule, the D.C. Court of Appeals has laid down another new rule that is expected to benefit defendants pleading insanity. This ruling came in the case of James R. Wear, who was tried for forgery soon after the Durham case.

Wear introduced evidence in a lower court that he had once been in an insane asylum. But Judge T. Blake Kennedy refused to order a mental examination for him. Judge Kennedy remarked: "After being in an institution he goes about cashing checks and acting in a normal manner. To me, that means he is sane." Wear was convicted.

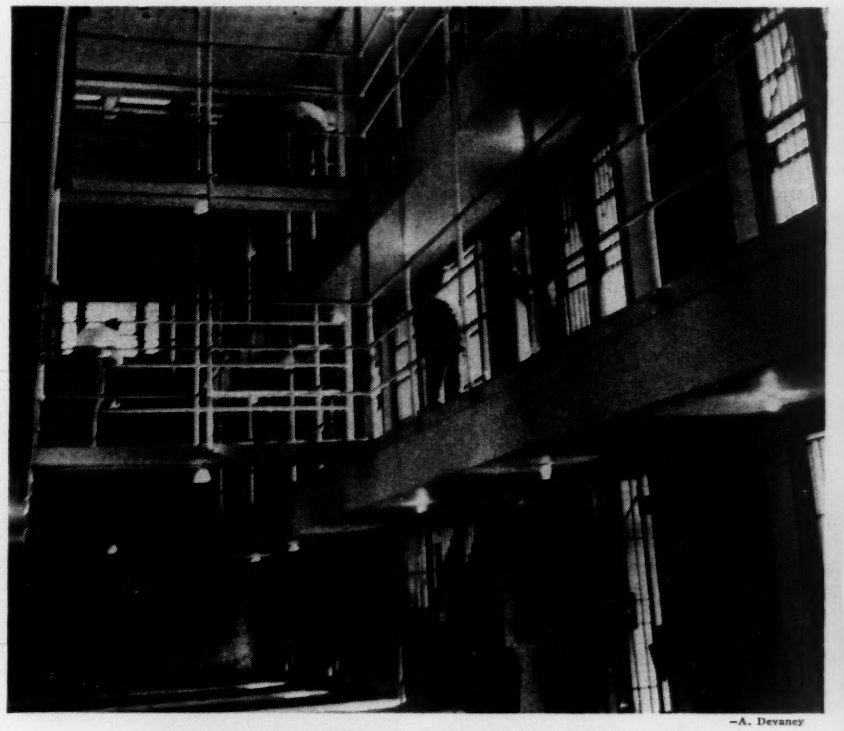
The appeals court, however, overturned the conviction and ordered that Wear must be granted a mental examination. In this decision, the court laid down this new rule: That any defendant with some background of insanity must be given a mental examination if he demands it, unless the request is frivolous or made in bad faith.

Some questions now. This chain of events has raised many questions in the minds of persons who have watched the actions of the court. Here are some of them:

Are more criminally insane persons going to be turned loose to prey on the public, if the new rules are generally applied?

This, in the opinion of some authorities, could happen unless something is

DILEMMA FOR COURTS: JAIL OR HOSPITAL?



–A. Devaney

PRISONS ARE INTENDED FOR "SANE" CRIMINALS
Lawyers and psychiatrists sometimes disagree

THE MENTAL INSTITUTION CARES FOR THE "INSANE"
. . . but often has no room for criminal patients

done to prevent it. Dr. Winfred Overholser, superintendent of St. Elizabeths Hospital, the Government's large mental institution in Washington, approves of the Durham decision, but he cautions:

"If you widen the door at one end, you must narrow it at the other for the protection of society."

Dr. Overholser says there should be a law, like one that Massachusetts has, requiring that any person who is acquitted of murder by reason of insanity be committed to a hospital for life.

Could a mental hospital hold the person for life if he eventually were proved to have regained his sanity and were no longer a menace to other people?

Dr. Overholser says it would not be in the interest of the public or fair to the man committed to keep him in the hospital if he were really cured. He believes there should be a carefully safeguarded provision for the release of sane persons. In Massachusetts the murderer who has been committed cannot be released unless the State director of mental health recommends it and the Governor approves it.

If a person is sane enough to stand trial, how could he be committed to a mental hospital afterward as insane?

"The criteria to determine mental fitness to stand trial are quite different from those for determining criminal responsibility," Dr. Overholser replies. He foresees no difficulty in committing to hospitals persons who are sane enough to be tried.

Are the criminally insane ever really cured by treatment in mental hospitals?

The first extensive study of this question has just been completed. It was made on orders of former Governor Thomas E. Dewey by the New York State mental-hygiene council. It reached these conclusions:

(1) The crime rate in the general population is higher than among mental patients who have been released from hospitals; (2) the crime rate among sane ex-convicts is higher than among released mental patients who had criminal records when committed to mental institutions.

The council studied the cases of 10,247 male patients of New York State mental institutions who were released in 1947. Their records were checked for five and a half years after release.

Will the public be as well protected from a criminally insane person if he is committed to an asylum as it would be if he were put in prison?

Dr. Overholser believes the public is more likely to be protected if such a person goes to a mental hospital than if he goes to jail. Even if a murderer is given a life sentence, he might be eligible for release on parole in 10 years. But, once in the maximum-security building of a mental hospital, he will stay there until he dies or recovers. Dr. Overholser admits that hospitals sometimes make mistakes in turning loose insane persons, but he points out that judges and juries also sometimes err.

Does the doctor in charge of a mental institution have the final word as to whether or not a patient shall be released as sane?

No. If a patient takes legal action to get a hearing before a judge, the judge can overrule a doctor's advice that the man be kept in the institution. Dr. Overholser thinks a change should be made in the law so as to prevent the release of a mental patient until after medical authorities certify he has recovered.

Will the courts that use the Durham rule always make correct judgments as to whether a defendant is sane or insane?

Not at all, say the experts. But many of them feel this is a step in the right direction. Psychiatrists will now be able to testify as to medical facts and symptoms, instead of becoming involved in metaphysical and ethical judgments about right and wrong. It is hoped that, in time, doctors will work out standards and definitions of legal insanity which will help to give defendants equal treatment in all courts and will clarify and simplify the subject for juries.

What harm can be caused by the Durham rule?

Some persons question whether it is morally right to allow more people to avoid punishment for their criminal acts because they are slightly insane. Others contend that psychiatrists will now exercise too much influence in courts, confusing and overpowering juries and judges with scientific jargon and technicalities. They have a new name for what they fear is coming: psycho-authoritarianism.

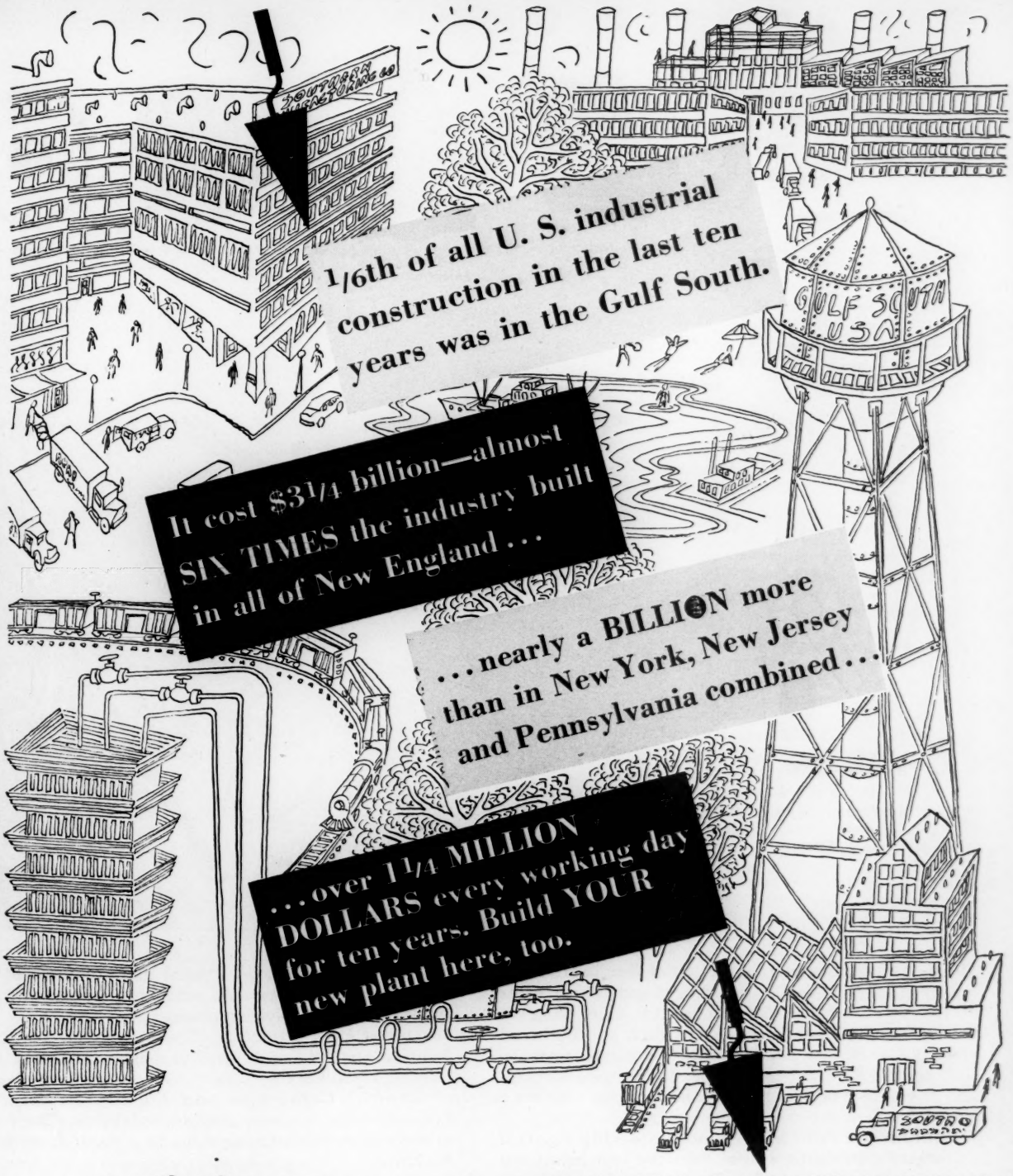
Is there any indication the Durham rule will be adopted by courts outside of Washington?

The doctrine of the Durham decision has been rejected in at least one court, in Baltimore, when cited in support of an insanity plea. It is expected, however, that defense attorneys will try to get other courts to follow the Durham rule. They will cite the decision as a precedent when they are trying to get their clients acquitted on insanity pleas. No court outside of Washington has to follow the Durham precedent. But some lawyers believe that the movement for a new insanity test is so strong that judges in many States in time will reach the same conclusions as the D.C. Court of Appeals.

That is why people across the nation are watching Washington's courts to see how the new insanity rule works in practice.

–USN&WR Photo

DR. WINFRED OVERHOLSER
For releasing "cured" patients, careful safeguards


1/6th of all U. S. industrial construction in the last ten years was in the Gulf South.
It cost $3 1/4 billion—almost SIX TIMES the industry built in all of New England . . .
. . . nearly a BILLION more than in New York, New Jersey and Pennsylvania combined . . .
. . . over 1 1/4 MILLION DOLLARS every working day for ten years. Build YOUR new plant here, too.
GULF SOUTH U.S.A.

Source: Engineering News Record (McGraw-Hill) computed by United Gas Industrial Development Director, P. O. Box 1407, Shreveport, Louisiana.

SILVER ANNIVERSARY

UNITED GAS

25 YEARS

SERVING THE Gulf South

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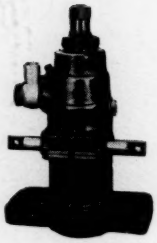
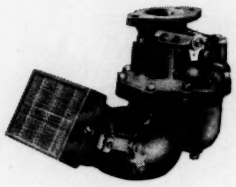
Ship-to-Shore Radio and Direction Finders

Depth Indicator

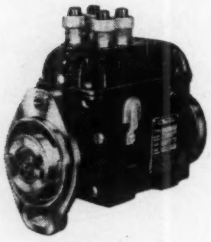


Diesel Fuel Injection Pump

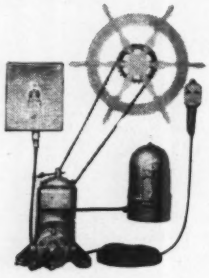


Zenith Carburetor and Flame Arrestor

Aneroid Barometer



Inboard and Outboard Magnetos



Automatic Pilot and Remote Steering Control

The boat business is another big user of Bendix products. For operators of diesel-powered tugs and fishing boats in the commercial field through the wide range of customers in pleasure classes from yachts to outboard motorboats, Bendix builds products designed to make their operations safer, more dependable, more economical. If you own or plan to buy a power boat, here are a few of the Bendix products available:

Automatic Pilot and Remote Steering Control . . . steers a straighter course than the best helmsman day or night in any weather. Pacific Division products.

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Depth Recorder

Electric Fuel Pump

on boats!

navigates . . . steers . . . finds fish . . . forecasts weather . . . communicates . . . improves Pleasure and Commercial boating so many ways!

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This is another view of Bendix diversity covering a thousand products made for scores of different industries. You may now know some of our divisions as sources for a few products you buy. It will pay you to know the corporation as a source for many products designed to contribute to the efficiency of your operations and products in many ways.

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A MAN WHO LIKES TO GIVE AWAY MILLIONS

Cullen of Texas Pours Wealth Into Schools, Hospitals

Most rich men wait until their death to dispose of their fortunes. But Hugh Roy Cullen is giving his money away during his lifetime, while he can enjoy the giving and see for himself the good that it does.

So far, Mr. Cullen has donated 175 million dollars, mostly to schools and hospitals.

Mr. Cullen is one of those Texans who made fortunes in oil and have come to be known, collectively, as "those Texas millionaires."

Like the others, however, he is a rugged individualist who does things his own way. This is the story of how one Texas millionaire made his money—and how he spends it.

HOUSTON, Tex.

One Texas oil millionaire is giving his money away almost as fast as it spouts out of the ground.

From his fabulously successful oil "wildcatting," Hugh Roy Cullen has piled up a fortune rated at between 300 and 400 million dollars.

Out of this, however, Mr. Cullen already has given away about 175 million dollars. Most of these enormous donations have gone into building impressive new educational and medical institutions for his native State.

Cullen millions have built the University of Houston from a small, struggling school into a mammoth and still-growing institution. They have helped to launch a Texas Medical Center in Houston that appears on its way to becoming one of the greatest medical institutions in the world. Many other institutions and charities have shared in the Cullen wealth.

These tremendous philanthropies, coupled with Mr. Cullen's nation-wide political activities, have made him one of the most widely known of that colorful band of oilmen commonly called "the Texas millionaires." He, however, like those other rugged individualists who made millions in oil, does not like to be known as a member of any "group of Texas millionaires." He makes it plain that he operates independently, that his activities and interests are his own.

The legends grow. Mr. Cullen's free-handed giving has inspired myths—such as the one that he gave the University of Houston 2.25 million dollars for beating Baylor University in a football game. People talk with as much awe about how he spends his money as about how he made it.

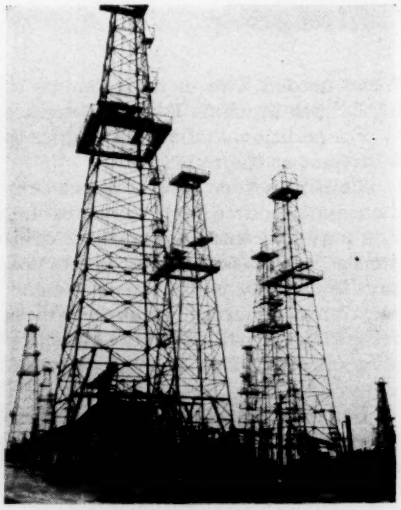
What is the real story behind this man, his gigantic fortune, and his fantastic philanthropies?

To a member of the Board of Editors of *U. S. News & World Report*, Mr. Cullen offered a simple explanation for his philanthropies. He described himself as

THE CITY: HOUSTON

—Prentice Hall

THE MAN: HUGH ROY CULLEN



THE BUSINESS: OIL

Out of the ground: philanthropies totaling 175 million dollars

a "selfish man" who likes to see his money spent, so he can enjoy the spending.

"All rich men leave their money to someone when they die," he once said. "But why wait? Why not give it while you are alive and get the full enjoyment of seeing the good it does, day by day?"

To those who criticize his political activities, Mr. Cullen makes this answer, quoted in a new biography, "Hugh Roy Cullen, a Story of American Opportunity," published by Prentice-Hall:

> "As long as I am an American, I intend to use my God-given right to fight for the things I believe made America strong, and to defend my country against the foreign 'isms' and the European and Asiatic political systems that I believe will make us weak, and ultimately destroy us."

What made America strong, in Mr. Cullen's opinion, is its system of free enterprise. He is an outspoken foe of what he calls "creeping socialism," and will spend his time and his money to support candidates who share his beliefs.

Up by bootstraps. Mr. Cullen regards his own life story as an example of the opportunity that the American system of free enterprise affords. Born 73 years ago, in San Antonio, Tex., he quit school at the age of 12 to go to work in a candy factory for $3 a week. At 18, he was a cotton buyer in Oklahoma, working for a Texas firm. At 23, he went into the cotton-buying business for himself, declaring that he never would work for anyone else again.

In 1911, when he was 29, Mr. Cullen studied the map and decided that the city of the future in the Southwest was Houston, with a port through which the riches of a third of the continent could funnel. He moved to Houston and went into the real estate business, then branched out into exporting cotton.

Chance brought Mr. Cullen into the oil business. A friend commissioned him to buy leases, and soon he was risking his meager capital in "wildcatting" ventures. For years he hit nothing but "dry holes." And even after he brought in his first producing well, in 1920, times were hard for several years.

Then, in three different fields in succession, Mr. Cullen hit oil in quantity—enough to make it possible for him to retire with a modest fortune. He didn't retire. Instead, he hunted tirelessly for more oil, often drilling in areas which others had abandoned as hopeless. He would drill deeper, and get oil.

At last, in 1930, came the bonanza that made Mr. Cullen a multimillionaire and won him acclaim as "king of the

(Continued on page 70)

"First time I ever looked upon a Cyclone Fence wit'out rancor or bitterness"

IT'S A RARE OCCASION when a burglar pays a compliment to Cyclone Fence. On the contrary, the word Cyclone is poison to any hard-working member of the underworld.

You *can* buy cheaper fence than Cyclone, but it will cost more in the long run. Cyclone contains nothing but brand-new, top-quality material. The chain link fabric is woven from heavy steel wire—galvanized *after* weaving to prevent cracks that encourage rust. Erection is handled by full-time, well-trained experts, so you can be sure of a fence that stays taut and trim.

Cyclone engineers will be glad to help you solve your fencing problems. Meanwhile, *send for the free booklet.*

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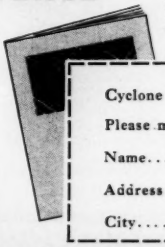

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Distillery
Louisville, Kentucky
Established 1849

We used to hold "Speakin' Day" at our one-room country school. Rigged in my Sunday duds, I once stood up and stumbled through "The Boy Stood on the Burning Deck."

Almost seventy years later I find myself and my business fitting into the second line of that familiar old ditty, which reads—"... *whence all but he had fled.*"

The particular specialty of our small family distillery is *one* bourbon made in the original, slow, costly sour mash manner.

The deck is pretty well cleared of folks with our one-track mind.

We offer our specialty, OLD FITZGERALD at *one* proof only — 100. As such, every drop is Bottled-in-Bond, under strict supervision of the Federal Government.

Here again we have the deck pretty much to ourselves.

It takes a certain amount of stubborn courage to stick to a distilling principle once you've set your teeth into it.

But we do not bottle OLD FITZGERALD at a "junior" proof. So long as I'm around we never will. I want no customer of mine to be confused when he orders my specialty at his tavern, store or club.

OLD FITZGERALD is made to accommodate the man who knows how real Kentucky Bourbon ought to taste, not watered down to accommodate a popular price.

So there can never be a question when your choice is OLD FITZGERALD. Our green stamp is inviolate. You enjoy our "one and only"—because it's *all* made and bottled *only* by us in our one-and-only way.

We invite you to join the inner circle of business hosts who rely on the continuous 100-proof integrity of our Bonded OLD FITZGERALD, and find it good business to share, in moderation, with associates and friends.

Bonded 100 Proof Original Sour Mash Kentucky Straight Bourbon

wildcatters." He discovered the vastly rich Thompson field, in southeast Texas. Two years later, he found another "wildcatter's dream," on the Tom O'Connor ranch on the Texas Gulf Coast.

Oil now was spouting from hundreds of Cullen wells. He found himself with far more wealth than he could spend. So he simply started giving it away.

Although he had quit school at 12, Mr. Cullen had carried on his own education by studying at home at night, and he believed education to be important in training citizens for a free-enterprise democracy. Education, in his view, should be available to poor as well as rich.

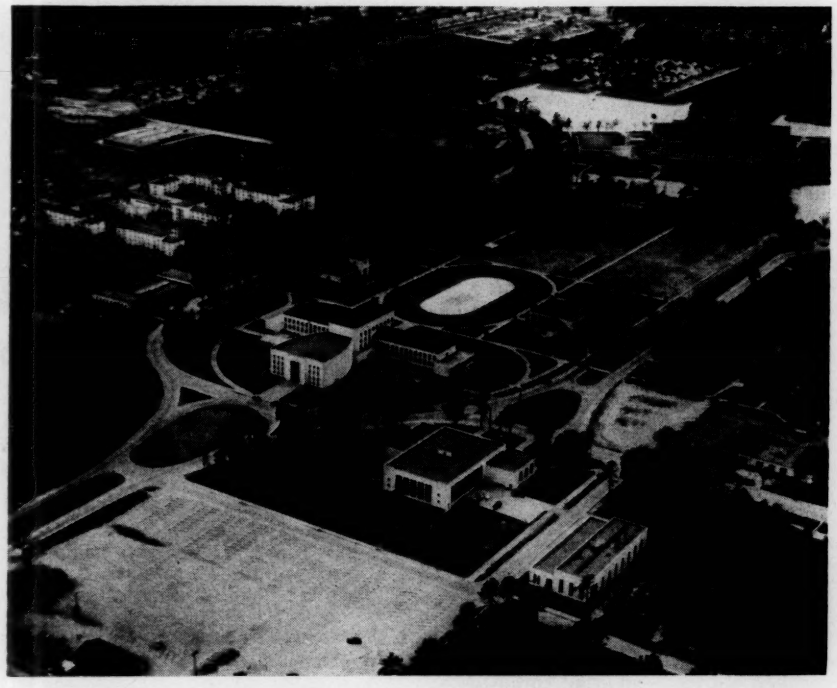
So, when the University of Houston planned an expansion program that would offer education to youngsters who could not afford to go away to college, and also to adults in night courses, Mr. Cullen pitched in $260,000. That was just a start. His gifts to the University now total 26.5 million dollars.

Chiefly through this help, the University of Houston has grown, since 1941, from an enrollment of 2,700 to 14,600. It has nine colleges, 20 ultramodern buildings—all but four of them built since World War II—and more expansion is planned.

School goes to pupils. In keeping with Mr. Cullen's belief that education should be available to all, the University is pioneering in television education that reaches thousands of nonstudents with free lessons in languages, psychology, Shakespearean drama and piano playing. Piano lessons also are prepared by the University and published in newspapers.

Three fourths of the University's students hold jobs—either part or full time—and, to accommodate them, classes run from 7 a.m. to 10 p.m.

Many of Mr. Cullen's donations were in the form of oil properties, which yield cash only as the oil is produced. So the University still has its money problems. Last year its income fell short of meeting operating expenses, so Mr. Cullen came to the rescue with a personal gift of 2.25 million dollars. This was publicly announced just after the University of Houston had beaten Baylor at football, so many people got the idea that the gift was a reward for the victory. Actually, however, it had been committed in advance of the game.



THE UNIVERSITY OF HOUSTON CAMPUS
. . . gifts of 26.5 million dollars

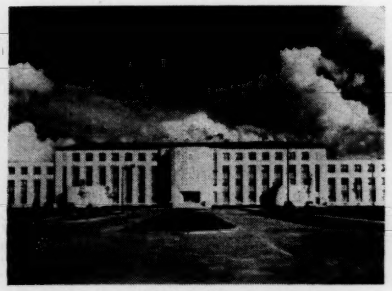
It was Mrs. Cullen and the Cullen daughters who helped turn Mr. Cullen's interests toward hospitals as worthy recipients of his donations. He concentrated chiefly on Houston's big Texas Medical Center that started from scratch less than 10 years ago and now, still less than half-finished, represents an investment of 57 million dollars. Of this, 10.5 million dollars came from Mr. Cullen.

The medical center includes six hospitals and schools of medicine, pharmacy,

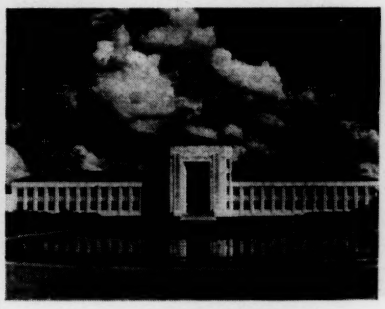
hospital administration and nursing that attract teachers and specialists from many nations. Patients come from many States and from Latin America.

Four millions in 48 hours. The bulk of the oilman's philanthropies are channeled through the Cullen Foundation, set up in 1947 and endowed with oil properties which it is estimated will yield ultimately about 160 million dollars. But he also makes large independent contributions to various enterprises. Once, in the space of 48 hours, he gave away more than 4 million dollars—more than a million to each of four different hospitals.

Mr. Cullen engages in politics on a similar big scale. Through his personal



Lillie & Roy Cullen Building, Baylor College of Medicine

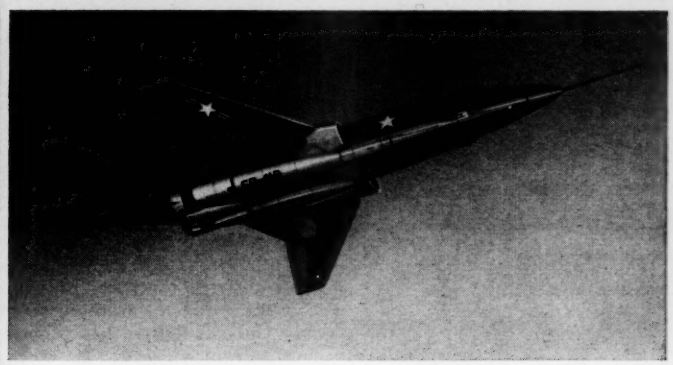


Ezekiel Cullen Building, University of Houston

support of candidates in many States who support his beliefs, as well as through his big contributions to political-campaign funds, he has become a recognized factor in national politics. But he has never run for office.

It was in the early days of President Franklin D. Roosevelt's New Deal that Mr. Cullen became politically active on a nation-wide scale. He considered many of Mr. Roosevelt's ideas to be alien to America's tradition of free enterprise, and he opposed Mr. Roosevelt at every election from 1932 to 1944. He also opposed the Democratic nominee President Harry S. Truman, in 1948, when he

(Continued on page 72)



Air Forces give McDonnell's new debutante a big rush!

TEMCO HELPS PRODUCE POPULAR F-101 *VOODOO*

When the F-101 made her first public bow, she was already a much sought after plane. Designed as a long-range fighter, the *Voodoo* will first be assigned to the Strategic Air Command to escort our jet bombers. But interceptor and tactical air groups also are casting covetous looks at this big new jet. Reportedly the most powerful fighter in the world capable of cruising at well over the speed of sound for hours, she is wanted for defense against bombers and for use as a supersonic fighter-bomber.

To facilitate production of this important plane, TEMCO was called upon to fabricate aft fuselage sections. The award of this contract indicates the thoroughly satisfactory manner in which TEMCO has been handling work on another McDonnell fighter, the F3H *Demon*, and further establishes TEMCO's reputation for producing a quality product, on schedule, at the lowest possible cost.

Final assembly and inspection of aft fuselage section of F-101 prior to delivery to McDonnell.

Plants at:

DALLAS,
GARLAND,
GREENVILLE,
TEXAS

backed the States' Righters in the South and the Republican nominee, Thomas E. Dewey, in the North.

Although on the losing side repeatedly in the presidential contests, Mr. Cullen has scored some successes in congressional elections. When he likes candidates, he assists them with campaign literature and funds. Often this is done in primary campaigns—and in both major parties. To him, the views of a candidate are more important than a political label.

More often than otherwise, however, Mr. Cullen's support has gone to Republicans. And, in 1952, he succeeded at last in getting behind a presidential winner. He threw his influence to Dwight D. Eisenhower very early, and helped in persuading Mr. Eisenhower to enter the race. Then he played an active part in lining up the Texas delegation that helped to nominate Mr. Eisenhower at the Republican National Convention. Since Mr. Eisenhower's election, however, Mr. Cullen has been somewhat disappointed by the President's attitude on some issues.

Between elections, the oilman-philanthropist frequently takes stands on issues about which he feels strongly, sometimes bombarding Congressmen and even Presidents with telegrams, letters and literature. He sees no impropriety in his political activity. In fact, he insists it is his duty as a citizen to work for the kind of government in which he believes.

In the main, the Texan concentrates his political efforts on behalf of free enterprise and against excessive governmental regulation. He says: "What made America great is free enterprise, in war and peace. If we fail to protect this, we will go the route of other countries, in Europe and Asia."

What he's against. Mr. Cullen also opposes what he calls "one-worldism." He was against U. S. entry into the United Nations and insists, now that the U. S. is in, that the U. N. must not be allowed to "interfere with our form of government or any of our domestic problems." He considers much of foreign aid to be wasteful. He opposes lower tariffs.

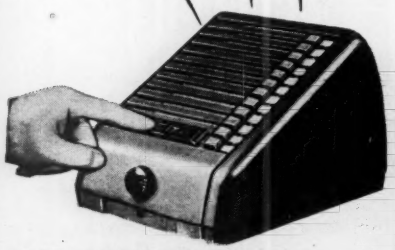
Long ago, he cleared the way for his philanthropies and political expenditures by providing for his family's future. He set up an operating firm, the Quintana Petroleum Company, which is 100 per cent family owned and is now managed largely by the husbands of three of his four daughters and by a grandson. His only son also was in the oil business until killed in an oil-well explosion in 1936.

Now Mr. Cullen has no intention of retiring from any of his activities—oil, philanthropy or politics. At 73, he still works hard at all three. And, at the same time, he is able to enjoy what he calls his "selfish" pleasure—watching what is being accomplished by the money he gives away.

A HOSPITAL IN THE TEXAS MEDICAL CENTER
. . . gifts of 10.5 million dollars

At your fingertips...

EVERY MAN IN YOUR PLANT...
EVERY OFFICE...
ON EVERY FLOOR!



The NEW EXECUTONE Intercom saves time, increases output!

Add up all the time that's lost by key personnel running back and forth for information. Add up the time wasted by switchboard "bottlenecks."

The NEW EXECUTONE turns this lost motion into productive working time with convenient, *instant* voice-to-voice contact.

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☐ LOCATING PERSONNEL

NAME.....*TITLE*.....
FIRM.....
ADDRESS.....*CITY*.....

In Canada—331 Bartlett Ave., Toronto

$3,500 for a spot on the new draperies...

The scene: A modern textile factory. Giant looms roar lustily, eating up miles of brilliant yarn, producing miles of beautiful new fabrics. In every loom, moving parts speed in a blur, faster than the eye can follow—and therein lies a story. For to lubricate those flying parts is a ticklish business.

On a single loom in a southern mill, for example, high speed gears overheated. The machine had to be stopped for lubrication, which was costly. But even worse, old-style lubrication resulted in stained fabric, no matter how careful the oiler was. Cost: Product spoilage over $3,500.00 a year—on just one loom.

Then an Alemite lubrication expert was called in. He studied the problem, came up with a simple answer. An automatic Alemite system was installed at low cost and a minimum of trouble. The installation was made after hours, so no machine time was lost. The new system, a miser on lubricant, metered the proper amount of oil constantly. No time lost for lubrication—and NO more fabric ruined by oil stains.

This is typical of the assistance Alemite offers industry. Whatever you manufacture, whether your plant is large or small, chances are an Alemite system or Alemite equipment can save you money. And expert lubrication counsel is yours at no cost or obligation whatsoever. Wherever you are, there is an Alemite representative ready to serve you.

Here, an Alemite loader pump is being used to fill a grease gun. The saving over hand methods is 15 man hours for every 400 pound drum of lubricant used. Further, only clean lubricant reaches bearings, maintenance costs go down, and housekeeping is easier.

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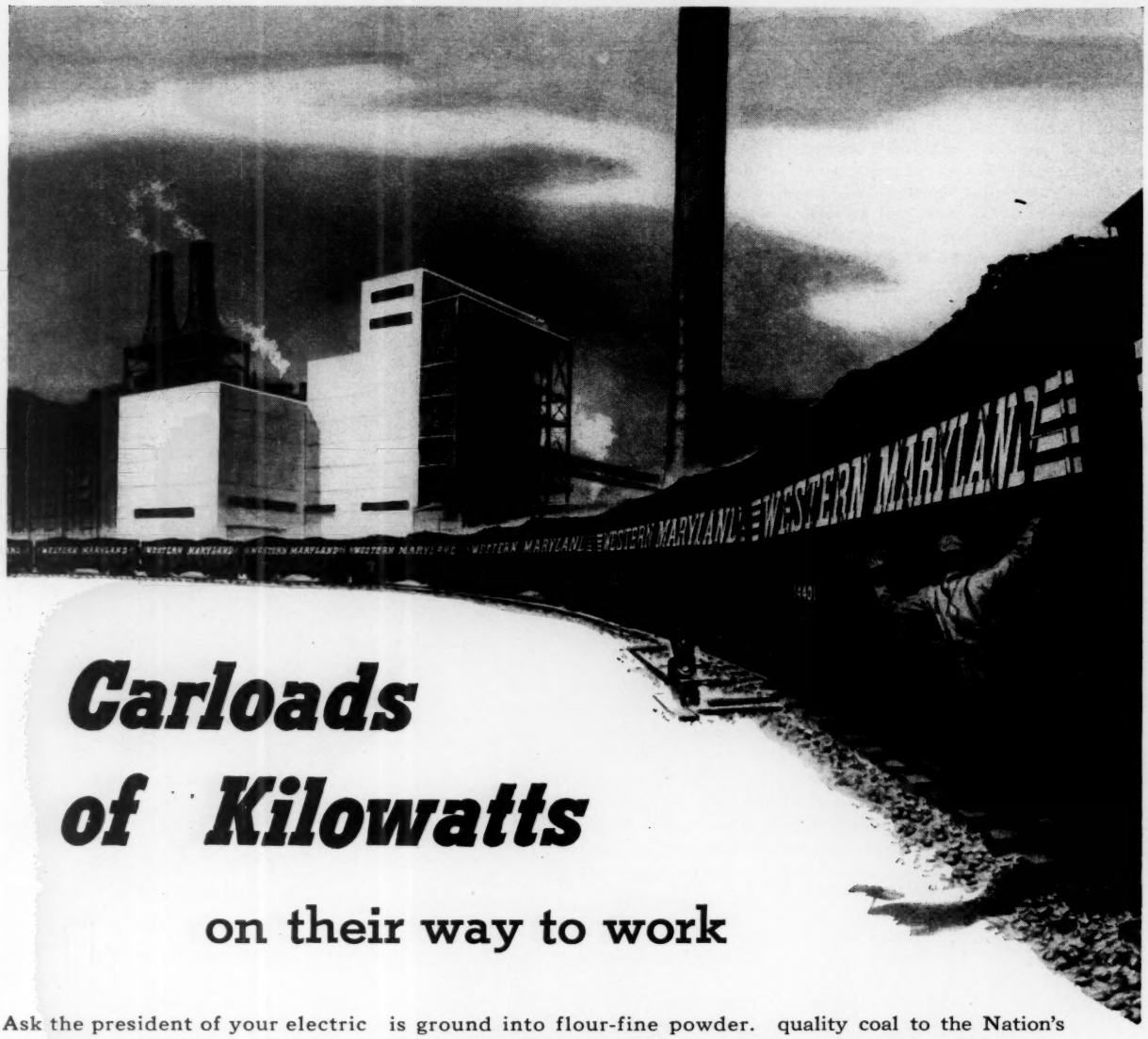

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FROM THE CAPITALS OF THE WORLD

LONDON....WASHINGTON....

>> Behind the scenes in London the idea persists that a deal can be worked out to solve the China problem. Rebuffs from Communist China are brushed aside. The deal will be to give offshore islands to Communists, put issue of Formosa on ice temporarily, let Nationalist cause die with the aging Chiang Kai-shek.

Formal cease-fire is no longer expected. Instead, after the Communists have dropped enough bombs to give an impression of strength, an unscheduled lull in the fighting is likely. The climate for a deal can then improve.

>> Sir Anthony Eden, once more in the role of international middleman, as he was during the Indo-China truce talks at Geneva, is taking the lead in sounding out Communist China, mainly through Prime Minister Nehru of India.

Eden's big problem is Communist China.

U.S., as Eden sees it, is doing the talking for Nationalist China, and is leaning toward the kind of deal Eden is working up.

Communist China, though, keeps raising its price.

Small islands aren't enough, Peiping says. Formosa is demanded as well.

Eden figures that a lull in the fighting, along with pressure from Moscow and neutral Asians, may persuade Peiping to settle for less--for now, anyway.

Eden's main idea is to get the fighting stopped, reduce risk of a big war, and then hope that a solution to the China problem will somehow emerge. As at Geneva talks, almost any deal looks better than war to diplomats in London.

>> So far as the British people themselves are concerned.....

They want no war over Formosa. Latest public-opinion poll shows that two out of three want Britain to stay out of Formosa war, if U.S. gets into one.

Feeling against U.S. over China question is being whipped up by British Laborites, who blame U.S., not Communist China, for the fighting near China.

Prime Minister Churchill, as a result, is criticized not only by the Labor opposition but by much of the press for siding with the U.S. on Formosa.

>> Split inside Britain over U.S. policy boils down to this:

Churchill wants U.S. to keep Formosa for time being, and arrange a deal in which Communists get part of what they ask, but by no means all.

Clement Attlee, former Prime Minister, Labor Party head, would give the Communists most of what they ask for now, throwing in an option on Formosa.

The Attlee program has its roots in past Socialist policy. It was during Attlee's Administration that Britain urged U.S. to fight limited war in Korea, to keep U.S. planes from hitting bases in the "privileged sanctuary" in China.

Besides, Attlee sees an election coming in Britain, maybe this autumn,

(over)

senses votes in a program that is antiwar, anti-U.S., pro-Communist China. And, on this issue, the Labor Party is united, not divided as on German rearmament.

>> Sir Winston is a politician, too, but not a Socialist one.

U.S.-British ties seem vital to him. He wants to keep them secure, if he can. British real estate in Asia is on his mind, as well. He never wanted to turn India loose. He hopes to keep Hong Kong and Malaya a while longer.

Communist intentions in Asia, moreover, worry Churchill more than they seem to worry Attlee. Churchill realizes U.S. help may be needed if Malaya is to stay free. So it's prudent to keep in step with U.S. on Formosa.

>> Now that the Manila Pact has been ratified by the U.S. Senate.....

U.S., though owning no Asian territory, has a new commitment in Asia. This commitment is to help keep Communist China from overrunning all Asia. A new line is being drawn by U.S. between China and part, at least, of South Asia.

Old commitments cover Japan, South Korea, Formosa, the Philippines.

New commitment adds Thailand, Pakistan, Malaya, much of Indo-China.

An attack by Communists on these areas, either by armed invasion or by internal subversion, means the U.S. has another fire to help put out.

>> There are these tnings to note about the Manila Pact:

U.S. involvement is not as automatic, as clear-cut as in Atlantic Pact. In any case, the U.S. is not promising to send ground troops to fight in Asia.

Collective defense is the idea. If areas attacked really want to defend themselves, and have done what they can, then U.S. will probably help them.

U.S. power, however, is heavily counted on. No government in the area could withstand an all-out Chinese Communist attack. Thailand, for example, looks to U.S. So does Britain in Malaya, for that matter. U.S. arms aid is expected.

European-style defense isn't contemplated. No joint headquarters, unified command, no big armed build-up as in Europe will grow out of Manila Pact.

There are gaps, it's true, in this new defense line. Burma and India are both vulnerable to Chinese aggression, yet both have stayed out of the Manila Pact. New moves by Peiping southward, however, might drive them into the Pact.

As U.S. sees it: Since the U.S. can't keep forces in South Asia without getting overcommitted, next-best thing is to rely on a combination of native forces--which demonstrate a will to resist--and U.S. air and sea power which can be moved into the area quickly. To Peiping, this may be deterrent enough.

>> Moscow reports of major changes in Soviet policy can be discounted.

A big shift away from producing things consumers need to the heavy stuff needed for war is talked up by Soviet leaders, but it's more talk than action.

Facts are these: After Stalin's death, the new Kremlin bosses weren't sure of their hold on the people. They decided to announce popular concessions, such as more consumer goods, less emphasis on heavy stuff for war. Actually, this highly publicized shift amounted to only a little more than 1 per cent, in terms of expenditures of Soviet industry. The shift was largely phony. It involved a few noticeable items, still left major emphasis in Russia on heavy industry.

Moscow's new line is a propaganda shift. Purpose is twofold: To scare West Germany away from rearmament, if possible, and to cover up the failure, inside Russia, to deliver on all those promises of abundance for Soviet consumers.

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THE MAN . Justice Douglas **THE NEWS** ..2 Chinas in U. N.?

A Dissenter on the Bench And on World Policy, Too

Justice Douglas, a man who gets around, has formed his own ideas on the Far East. He upsets tradition and startles the statesmen by speaking up and voicing unpopular recommendations.

—Harris & Ewing

WILLIAM O. DOUGLAS, Associate Justice of the Supreme Court, a restless man with a restless mind, has been having his say again on matters that lie outside the field of the judiciary. With Mr. Douglas, this is an old habit. And, when he speaks, he usually startles a good many people in Washington and other world capitals.

Generally, what he has to say is unpopular in Congress and with those who make U. S. foreign policy. Just now, Mr. Douglas, who has a lifetime job and need not face the hazards of an election, is urging that both Red China and Nationalist China have seats in the United Nations. A few years ago, too, he was asking that the U. S. recognize Red China.

In between times, there have been numerous speeches or statements mostly on policy in the Far East—although some have pointedly deplored "intolerance" and "witch hunting" in the U. S. And, over the last several years, Mr. Douglas has visited most of the nations of the Near East and non-Communist Asia.

These trips have been highly unusual. Mr. Douglas's routes have led through the capitals of the nations of those regions. But, beyond that, he has gone by pack train, afoot or on horseback through the hinterlands, talking with villagers and tribesmen, trying to find what may be the best method of combating Communism. Great decisions, he says, are being made in the villages of Asia.

What Mr. Douglas has to say provokes criticism not only because of the ideas he espouses, but because he discusses such subjects at all. Many, including most Supreme Court members, hold to an old tradition that the Justices are above the turmoil of daily events, that they speak out only on Mondays, when the Supreme Court announces its decisions, and only on the legal questions brought before the high Court for review.

Individualist. This tradition obviously means little to Mr. Douglas. He is accustomed to being the center of a controversy and some critics think he likes it that way. He came to Washington as one of the early and more enthusiastic New Dealers. He headed the Securities and Exchange Commission when that agency was locked in a bitter battle with the New York Stock Exchange. As a member of the Court he has been a noted dissenter.

Mr. Douglas is, in fact, an individualist. Now 56, he is a weathered out-of-doors man from the Pacific Northwest, tall, lean and angular. The woods, the mountains and streams are his element, as well as the world of ideas. Not long ago, he led a 178-mile, eight-day hike along the old Chesapeake and Ohio Canal to demonstrate that the undisturbed wilderness of the area should not be sacrificed to a proposed parkway.

(Continued on page 80)

—Wide World, United Press

JUSTICE DOUGLAS SEES THE SIGHTS OF INDIA . . . . . AND HIKES 178 MILES TO PROVE A POINT

From a jurist, statements that startle a good many people

"*Unforeseen events* . . . need not change and shape the course of man's affairs"

He was born to be . . . *fleeced*

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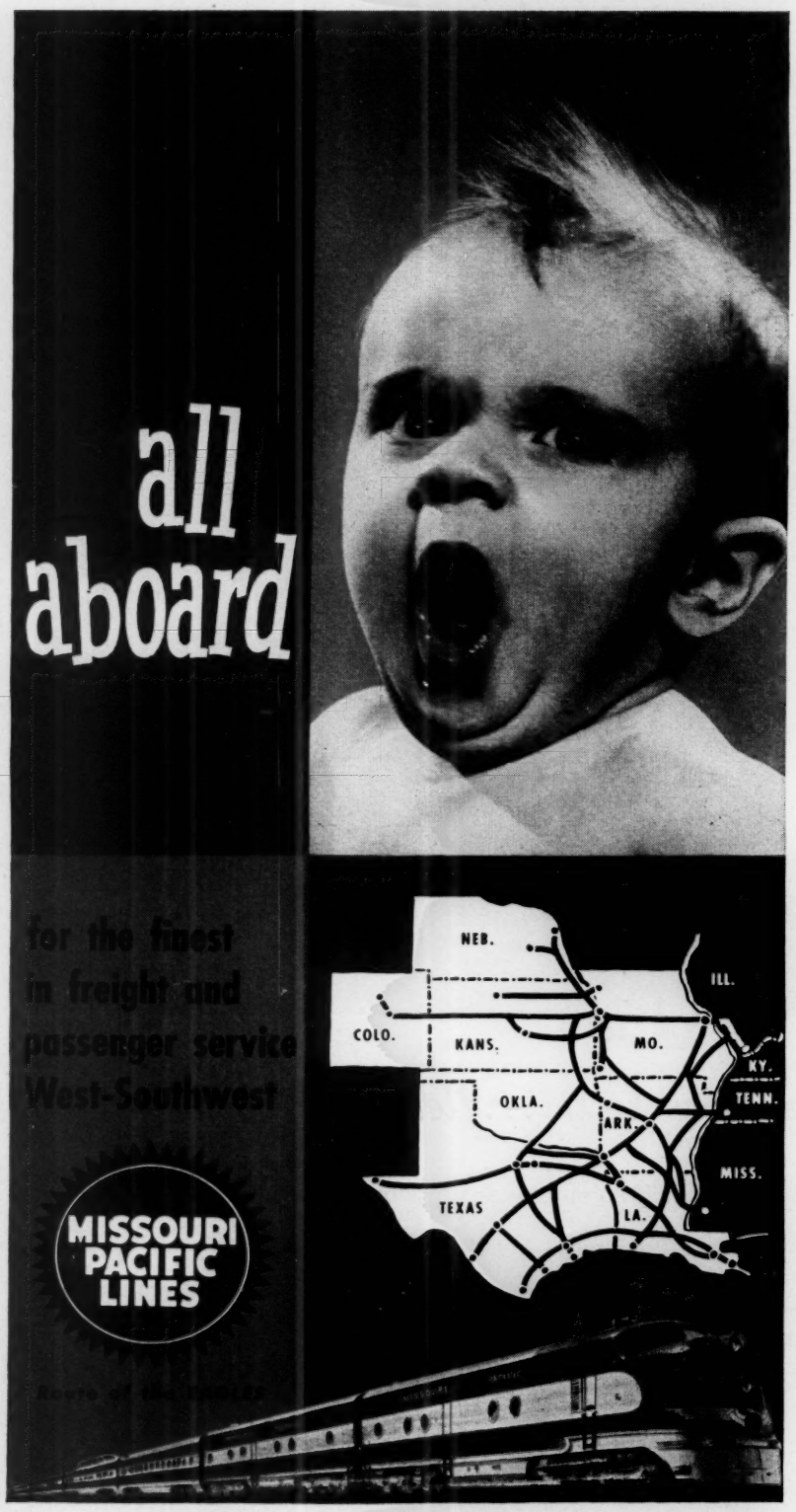

As SEC head, Mr. Douglas policed Wall Street . . .

He is a determined and enthusiastic mountain climber. His Asian journeys were motivated, in part at least, by the fact that there were challenging peaks to be climbed along the way. This and other out-of-doors proclivities were acquired early and naturally.

As a youngster, growing up in near poverty with a widowed mother in Yakima, Wash., Mr. Douglas suffered an attack of polio. Both legs were affected. Recovery was slow. Unable to compete with his schoolmates physically, as he himself analyzes it, he concentrated on his books. Meanwhile, to build his limbs, he began walking the foothills of the Cascade Mountains. From the process he emerged a scholar and, finally, a man of physical strength. But he never lost his love for books and ideas, or for the mountains.

Mr. Douglas worked his way through Whitman College, taught school, decided he wanted a law course in the East. To get there, he took a job tending a shipment of sheep. That got him as far as Minnesota. He rode freights to Chicago, then borrowed enough money for coach fare to New York.

At Columbia, he earned a law degree and a part-time teaching job at the University. He also went to work for one of the big Wall Street law firms. Mr. Douglas got fed up with that and returned to Yakima to practice. But Columbia wanted him back on a full-time basis and, from there, he went to Yale, where he soon became professor of law.

New Dealer. At Yale, he initiated some studies of bankruptcy law and its application that attracted attention in Washington. The New Deal was in full flower. Joseph P. Kennedy, then Chairman of the SEC, asked Mr. Douglas to continue his studies with that agency. In 1936, he became a member of the Commission and a year later its Chairman.

The appointment caused alarm in some circles. Mr. Douglas took over the SEC with a brief statement that featured prominently the words: "No monkey business." He was stern with Wall Street, but finally managed to work out the application of the Securities Exchange Act to the Stock Exchange.

As a man of boundless ideas and firm New Deal convictions, a man who flinched not at all at clamping Government controls on various fields of activity, Mr. Douglas inevitably attracted the attention of Franklin D. Roosevelt. The President had been having grave difficulties with the Supreme Court involving such questions. In 1939, he appointed Mr. Douglas to the Court, and the

. . . The Justice has upheld labor, free speech

latter became the youngest member of that tribunal in 128 years.

Mr. Roosevelt also may have had a political future in mind for his protege. Mr. Douglas was one of the men approved by the President for the vice-presidential nomination in 1944, but the Convention chose Harry S. Truman. Again, in 1948, the Justice was much talked of for the Presidency or Vice Presidency, but publicly removed himself from consideration.

As a member of the Supreme Court, Mr. Douglas has championed the rights of labor and has spoken out strongly for a broad interpretation of civil liberties, of freedom of speech, press and religion, for unpopular as well as popular causes. He has been one of the Court's more industrious members in terms of opinions written and, often in company with Associate Justice Hugo L. Black, has repeatedly dissented.

In 1953, Justice Douglas created a furor by granting a stay of execution to Ethel and Julius Rosenberg, convicted atomic spies. The reason was that a point of law had been presented to him which the Court had not previously considered. The Court met in special session, held the new point of law invalid. An unsuccessful move to impeach Justice Douglas was begun in the House. Later, the then Chief Justice, Fred M. Vinson, publicly defended Mr. Douglas's right and power to issue the stay of execution.

Life on the Court. Mr. Douglas finds the work of the Court confining, but is determined to stay with it. If he ever had political ambitions, his attitude on Far Eastern affairs may have killed them. In the Orient, his concern is for the little people, for helping them attain democratic self-government. This he holds cannot be done by military policy.

There also is need for a peaceful solution of the Formosa question. He backs the U. S. proposal that a cease-fire be sought through the United Nations. But, since that would leave two Chinas, perhaps for a considerable period of time, he feels that this fact should be recognized by giving both Chinas representation in the United Nations. A war with Red China, he holds, would be disastrous to the U. S. Meanwhile, the nonrecognition of Red China would "mean constant turmoil and trouble in Asia."

When the propriety of such statements being made by a Supreme Court Justice is questioned, friends say, Mr. Douglas merely smiles. Obviously, there are to be more trips to the Orient and more suggestions from this man of restless mind with an urge to travel.

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ROOSEVELT HAILED AS A "CONSERVATIVE"

Franklin D. Roosevelt, who often has been termed a "radical reformer," now is called a "conservative." The man who so describes the late President is Senator Joseph C. O'Mahoney (Dem.), of Wyoming.

Far from being a socialist, says the Senator, Mr. Roosevelt was only trying to preserve America's traditional freedom and its democratic form of government by the economic reforms that he sponsored.

Now, says Senator O'Mahoney in the following address, given at a Roosevelt Day dinner, America's best defense against Communism is a return to FDR's philosophy.

Following is full text of an address by Senator O'Mahoney at the seventh annual Roosevelt Day dinner in New York City on Feb. 2, 1955:

I speak tonight of Franklin D. Roosevelt, the conservative, and his unfinished task. Roosevelt was a conservative, not in the sense that he wanted to preserve things as he found them, but in the sense that he knew that new conditions impose new duties, and that eternal vigilance is the price of liberty. He was a leader of vision who understood that the foundations of freedom were under attack in the modern world.

He knew that economic reform was essential to the preservation of the basic objectives of the American system of government. From the day he took office as President of the United States until the nation became involved in the second World War, the purpose of his policy was to restore economic opportunity to the masses of the people, to safeguard the concept of private property, and to eliminate abuses arising from the concentration of economic power.

Throughout his career Roosevelt was misunderstood by those who deemed him to be a radical reformer, whose efforts could result only in tearing down the edifice of popular government. They were blind leaders who not only did not realize that once again mankind needed a "new birth of freedom," but who mistakenly believed that the remedy for the obvious economic ills, which brought the crash of 1929, was nothing more than a restoration of the conditions which existed before the collapse. They did not understand that a system of collectivist capitalism had developed which promoted monopoly, impaired production and distribution, caused widespread unemployment, and threatened the very existence of economic freedom.

Far from being a socialist whose aim was to undermine the constitutional system and make the Government superior to the citizen, Roosevelt was dedicated to the preservation of the right of private property. He knew that it could not be preserved except by honest and far-reaching reform, and he had the courage to devise and defend a program of reform that even those who most harshly criticized him have now been obliged, reluctantly it is true, to accept.

—Harris & Ewing

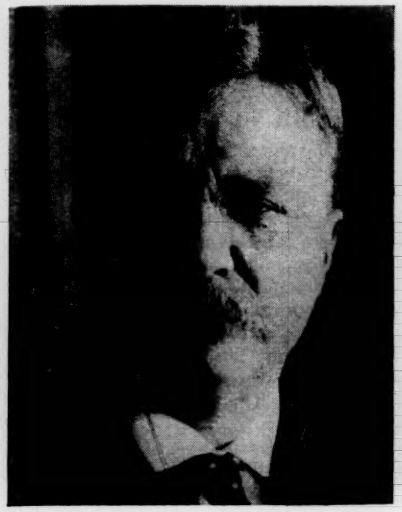
SENATOR O'MAHONEY

Dedicated to the Constitution

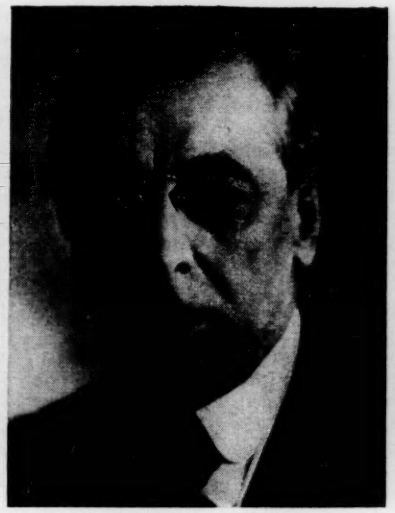
He was dedicated to the American Constitution. He knew that the framers of that document gave to the Congress complete control over commerce, and he was aware that conditions, developing as long ago as the Administration of President Grant, had been gradually imposing upon the people a new national but unregulated economic government, affecting the whole people and over which the Federal Government was exercising no effective influence to protect competition. It was a system by which a few industrial and commercial leaders were slowly gaining control of all the instruments of trade, commerce and industry without respect to the authority of either State or National Government.

Mr. Roosevelt was a devoted supporter of Woodrow Wilson who had perceived the need for more effective public regulation of the new national economic system and who, in his first term in the Presidency, successfully secured the enactment into law of essential reforms over the stubborn resistance of Republican leadership which had arrayed itself on the side of those whom Theodore Roosevelt had called "malefactors of great wealth." He had seen the program of Wilson and of Republican progressives brought to a sudden halt by World War I when the exigencies of international conflict claimed the undivided attention of both the Government and the people. Victory in the war was followed by confusion and uncertainty. In the wake came the Harding campaign for the "return of normalcy," and there followed 12 years of reactionary policy under a Government which saw no need for economic reform or social justice. Its leaders wanted merely a return to the conditions which in 1912 had ruptured the Republican Party and elected Wilson.

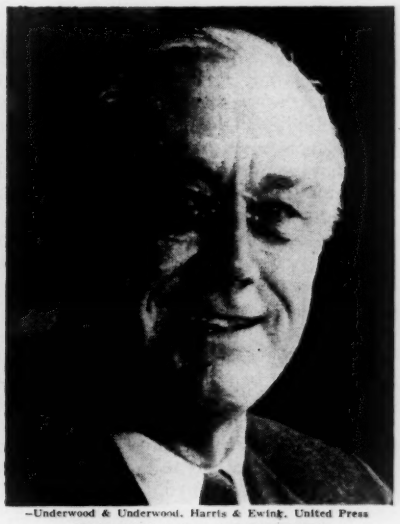
These were 12 years which proved the need of a progressive and vigorous policy,



THEODORE ROOSEVELT



WOODROW WILSON



—Underwood & Underwood, Harris & Ewing, United Press

FRANKLIN D. ROOSEVELT

"... a new leader had arisen in the spirit of Lincoln, Theodore Roosevelt and Woodrow Wilson"

designed to restore economic opportunity and social justice to all the people by putting an end to economic domination by private operators whose major concern was their own personal aggrandizement. They earned the name "reactionary" because they really wanted to turn the hands of the economic clock back, an objective so impossible to achieve that the attempt resulted only in the collapse of 1929. Into this crisis stepped Franklin D. Roosevelt when, in 1929, he succeeded Alfred E. Smith as Governor of New York. He continued the battle for social reform, and he came face to face with the subtle methods by which the managers of national business were successfully resisting regulation in the public interest by both State and federal governments. Again he learned the imperative need of economic reform, and he began the campaign of 1932 with a masterful mobilization of public opinion to demand the removal of the economic capital of the United States from Wall Street to Washington. He saw that business and industry had become continental in their operations and that the public interest could be protected only by a constitutional American Government in the nation's capital through the authority of elected representatives of the people instead of through the private manipulators of concentrated economic power.

Launches Drive for Economic Reform

I was there when this campaign began. I was a Democratic National Committeeman from the State of Wyoming. I was one of those who raised the cry in the Far West for the nomination of Franklin Roosevelt for the Presidency. Like my associates, I was moved by the conviction that it was absolutely necessary to resume the struggles of Theodore Roosevelt and Woodrow Wilson for national economic reform if the living generation and the generations to come were not to be deprived of their heritage of freedom and opportunity under the Constitution.

I had in mind Mr. Roosevelt's record as Governor. He stood for the conservation of natural resources and for reforestation; he stood for the protection of bank deposits, and he sought in various other ways through the State government to advance the cause of government of, for, and by the people. It was apparent to him already, however, that victory for economic freedom could not be won through State governments, because economic concentration was managed on a national scale.

Beginning early in 1932 with his speech on "The Forgotten Man," the new presidential candidate, in meeting after meeting throughout the country, both before and after his nomination at Chicago, convinced the people that a new leader had arisen in the spirit of Lincoln, Theodore Roosevelt and Woodrow Wilson. Finally, late in September before the Commonwealth Club in California, he traced the development of the crisis the nation faced and clearly demonstrated that he was indeed a conservator of the underlying free principles of this government.

> "The issue of government," he said, "has always been whether individual men and women will have to serve some system of government or economics, or whether a system of government and economics exists to serve individual men and women. This question has persistently dominated the discussion of government for many generations . . .
>
> "The American colonies were born in this struggle," he went on. "The American Revolution was a turning point in it."

He told with approval how Jefferson, shortly after writing the Declaration of Independence, had said that the people "had two sets of rights, those of 'personal competency,' and those involved in acquiring and possessing property."

Defender of Private Property

Paragraph by paragraph, Roosevelt outlined the philosophy of popular government and private property, and showed that he cherished no thought of economic revolution but sought only economic reform and the re-establishment of the basic concepts of free government. The task ahead, he said, was that of "meeting the problem of underconsumption, of adjusting production to consumption, of distributing wealth and products more equitably, of adapting existing economic organizations to the service of the people." Note the words "existing economic organizations."

This is the language, not of a man who sought the abolition of private property, but of a man who realized that the development of government in the Western world, coming to a

climax in the establishment of the American union, was marked by "the rise of the ethical conception that a ruler bears a responsibility for the welfare of his subjects."

It is not only the political ruler that bears this responsibility for the welfare of the people, but it is likewise the responsibility of the industrial and commercial manager.

Here was a program cast in the best mold of Americanism. It was understood by the people and, because it was so understood, they kept him at the helm of Government for a longer period than any man in history. He was kept there because, as in the case of Woodrow Wilson, his program of economic reform in the American tradition was interrupted by another international war.

Now those who would follow in the footsteps of the founders of this Government must realize that once again we face the task of enacting those economic reforms which are necessary to protect the system of private property from collectivism of the right as well as collectivism of the left. This is the unfinished task of Franklin D. Roosevelt. His first term was devoted to rebuilding the ruins which reaction had wrought. He had to reopen the banks, he had to create jobs, he had to make opportunities for business, he had to restore the confidence of the economic leaders as well as that of the people. This confidence was evidenced in the overwhelming re-election the people gave him in the campaign of 1936, though in that campaign the opposition of reactionary leaders impelled him, in a famous speech at Chicago, to make the well-remembered remark that already recovery had so far advanced that some of the patients were "throwing their crutches at the doctor." Now these patients, or their successors, seem to be striving with might and main to remove the economic capital from Washington, where Roosevelt restored it, and move it back to the counting houses of Wall Street.

It was on April 29, 1938, that President Roosevelt sent a notable message to the Congress asking for a study of the concentration of economic power. He was urging no attack upon business. He was seeking only to find a stable formula by which "idle men, idle machines and idle money" could be put to work profitably for the benefit of all. It posed no threat to the honest managers of "the existing economic organization," of which he had spoken in the Commonwealth address, but called only for the adoption of the ethical concepts of the responsibilities that economic leaders, as well as political leaders, should bear for the welfare of the people.

Roosevelt's Faith in America

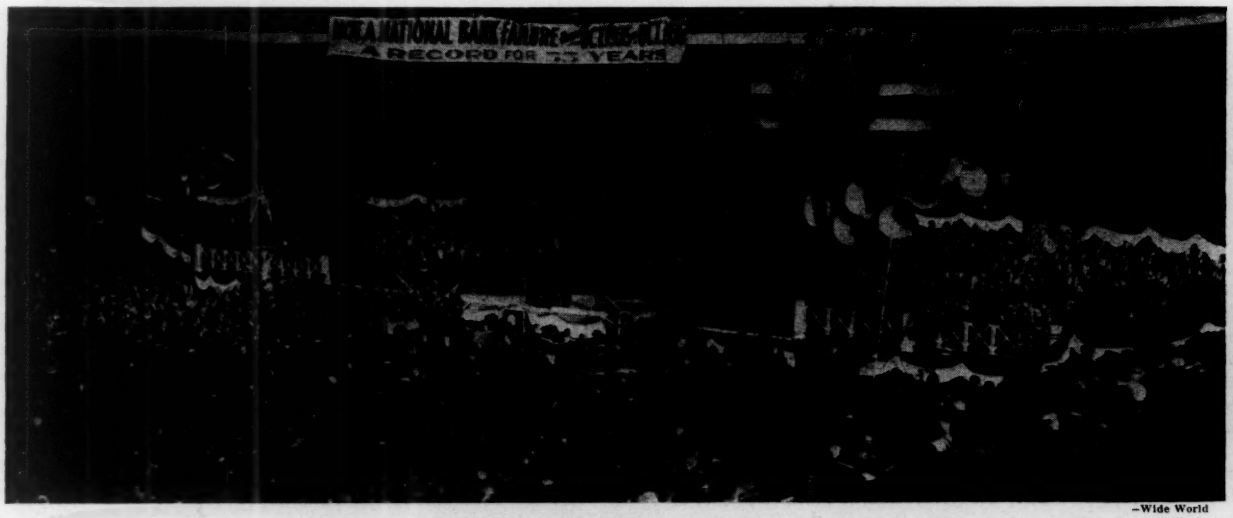
Mr. Roosevelt preached the doctrine of faith in America, its heritage and its future. He believed in the people and in American institutions. He sought only, to use his own words, to "recognize the new terms of the old social contract."

This message, therefore, was in complete harmony with his vision of a people's government, united in tolerance and freedom, which he expressed in his first inaugural when he declared that the course of action he proposed was "feasible under the form of government which we have inherited from our ancestors." He respected the Constitution, he admired the Constitution. He felt that it was the best instrument of government yet devised by men. This faith he expressed in the following eloquent words:

> "Our Constitution is so simple and practical that it is possible always to meet extraordinary needs by changes in emphasis and arrangement without loss of essential form. That is why our constitutional system has proved itself the most superbly enduring mechanism the modern world has produced. It has met every stress of vast expansion of territory, of foreign wars, of bitter internal strife, of world relations."

Great as was the stress of the period in which the people placed Roosevelt in the seat of power, it is not to be compared with the stress under which the whole world now trembles. Just as the reactionaries of 1920 called for an easy return to "normalcy," and abandoned all effort to achieve the reforms made necessary by the changing times, so now there are leaders in Washington who seem not to have understood the deep necessity of stable economic reform if the door of opportunity is not to be closed again to the masses of the people.

Once more a Republican Administration, like those which followed the Administration of Woodrow Wilson, finds it impossible to repeal the social-welfare laws that were enacted under Franklin D. Roosevelt and his successor, Harry Truman. They descended upon Washington convinced no doubt



—Wide World

PRESIDENT ROOSEVELT ADDRESSES A CHICAGO RALLY IN 1936

". . . recovery had so far advanced that some of the patients were 'throwing their crutches at the doctor' "

that the New Deal was an illusion that ought to be completely eliminated, as if it were an adventure in socialism which never should have been undertaken. The welfare state, as the 20-year Democratic regime was derisively called, has taken such deep roots that it has borne fruit in this Administration in the appearance of a new Department of Health, Education and Welfare. Uncertain of step and slow of pace, the new Administration yields reluctantly to the inevitable. On the international front it has not surrendered to the isolationists. It still painfully follows the path laid down by its predecessors who sought the union of the free world to maintain the objectives of liberty for all mankind, but it seems still determined to go back to the economic era in which neither the federal nor the State government was able to enforce a formula of social responsibility in the field of economics.

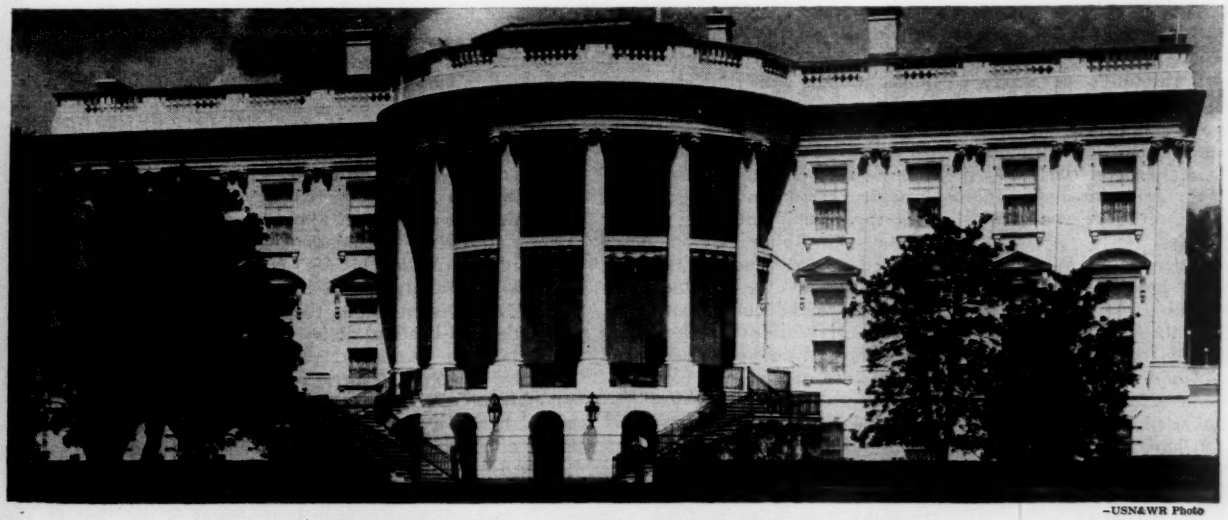
It seems not to be understood that the capitalistic system is in mortal danger unless the Federal Government resumes the drive for economic reform, undertaken at the beginning of the century by Theodore Roosevelt and Woodrow Wilson, abandoned in the 12 years of Republican rule beginning in 1921, regenerated and reinvigorated under Franklin Roosevelt and Harry Truman, and now apparently stalled upon the dead center of reactionary leadership restored to power in so many branches of the present Administration.

"A New Cycle of Reaction"

Scarcely a day passes that the journals of finance in New York and Chicago do not announce another industrial or financial merger. Boards and commissions, created by Congress to enlarge opportunities for the people as a whole, seem to have altered their policies and to regard themselves as champions of big rather than of little business. A member of the President's Cabinet, at the head of the Department of Commerce, would amend the antitrust laws so as to make human labor a commodity of trade and commerce like a bag of meal or a ton of brick. It is true another Cabinet member, the Secretary of Labor, seems to resist the reactionary demand for what is falsely claimed to be "the right-to-work law," but which is intended rather to put human labor at a disadvantage before collectivist capital. The Hoover Commission is busily at work reorganizing the Government under a grant of power never issued by any previous Administration, authorizing it to recommend the alteration of the functions of Government. The legislative powers of Congress, outlined in the very first Article of the Constitution, are the bedrock of popular government, yet they are now being absorbed by the White House, which, to a degree never before undertaken, even in World War II, is becoming a law-making as well as a law-enforcing arm of Government. Every lobbyist in Washington knows that the lines of control, even of the quasi-judicial commissions, are in the hands of anonymous assistants in the White House. Thus, the legislative powers delegated to commissions are being, as it were, redelegated to the White House staff.

The pattern of this new change is well illustrated by the Dixon-Yates contract. Here two holding companies are authorized by executive authority to conclude an agreement with the Atomic Energy Commission whereby they create a subsidiary corporation under the laws of one State to transmit electric energy to atomic plants in another State. This subsidiary is capitalized at 5.5 million dollars to construct and operate a 106-million-dollar generating plant. All the rest of the capital cost of this plant is secured by debt financing. The equity of the owning company is so small that it would not be tolerated in any ordinary financial contract. This the attorneys for the Securities and Exchange Commission admit by saying in their opinion approving the financial arrangement that, "in the case of the usual public utility company, the Commission would not approve a capital structure with so high a proportion of debt to equity because . . . both the debt and equity would be of too speculative a character."

What possible justification can there be for the approval of a contract of a Government agency and the subsidiary of two holding companies which the attorneys of the Securities and Exchange Commission say to be too speculative to be tolerated in private enterprise? This question the SEC legal staff answers with the amazing words that so long as the contract between the subsidiary of the holding company and the Government agency, the Atomic Energy Commission, is in force, "the annual debt service requirements (including amounts needed for annual debt retirement) will be adequately met by the payments from the Government." The



—USN&WR Photo

THE WHITE HOUSE: A TARGET OF SENATOR O'MAHONEY

"Every lobbyist in Washington knows that the lines of control . . . are in the hands of anonymous assistants"

disproportion of debt to equity thus contained, justified by the SEC counsel only because the Government is paying, is another illustration of how the national debt is being increased clandestinely.

The Economic War with Russia

Thus at a time when the whole Government knows, when all private business knows, that we are engaged in an economic war with Communist Russia, the Administration in Washington perpetrates a transaction of high finance of a kind we have not seen since the American public was exploited by the utility magnates of the Insull-Hopson era. This is not an escape from "creeping socialism." It is a plunge into "creeping conservatism," to borrow a phrase of the President of the General Electric Company, used by him in another connection only a few weeks ago. It is even more than creeping conservatism. It is reckless reaction to methods and deals which will do more to destroy the system of private property than anything the Soviets can accomplish.

Two other instances of reactionary economic policy recently were revealed in the presidential budget. Out in Wyoming, Colorado and Utah there are deposits of oil shale of such magnitude that geologists tell us they contain an oil reserve far greater than that of Saudi Arabia and perhaps the whole Middle East. Under the Synthetic Fuels Act, enacted in 1946, the Bureau of Mines was authorized to operate demonstration plants to test the scientific possibility of refining these shale deposits at a cost comparable to that of refining oil. The law also authorized similar tests with respect to coal. A year ago the coal plant was closed at Louisiana, Mo., and the experiments abandoned just at the time that unemployment in the coal field was becoming distressful. This year the petroleum industry, acting through its advisory council to the Secretary of the Interior, has recommended the elimination of experimentation in oil shale, and the Bureau of the Budget sent no estimate to Congress for the continuation of the work.

Many other illustrations could be cited to show how important it is to take up the task which President Roosevelt had to lay down when World War II began.

Surely everyone must understand now that the "cold war" with Soviet Russia in which we are engaged is an economic war. Stalin, long before his death, outlined the Soviet plan in the plainest of plain words in his "History of the All-Union Communist Party," published in 1939. He wrote that in the conflicts between the Soviet regime and the bourgeois states the Red Army would not be committed to action until absolutely necessary. To him a conflict with the "capitalistic" states was inevitable. He once wrote that "the struggle between these two systems (by which he meant Communism and capitalism) will fill up the history of the development of the world revolution." This epoch, he wrote at the same time, "is an all-strategic period embracing a whole series of years, and I dare say, even a number of decades."

Hitler, before World War II, wrote his book which all the world ignored until it was too late. Already the Western world has too long ignored Stalin's books, and seems to continue to drift into the cauldron of a third World War more terrible than all of its predecessors combined unless we here in America open our eyes to the absolute necessity of economic reform which will abolish the possibility of the exploitation of the masses of the people by economic rulers who have no sense of social responsibility.

There Is An Alternative to War

The Formosan resolution was passed last week by the Congress, many members of which felt that it was just a step to only another little war around the periphery of the Soviet empire. Big or little, it will place additional drains upon our economic strength. The resolution was passed because there appeared to be no ready alternative to preserve the peace. Yet there is an alternative. It is a recognition of the fact that the economic power of America is our greatest weapon of defense if it is used for constructive and not destructive purposes by leaders of Government and business. These constructive purposes concern the production and distribution efficiently among the masses of mankind in the manner toward which Roosevelt was pointing. If we desire to avoid a third World War and to win freedom for the people, we must make the struggle here in the United States on the home front to strengthen the capitalistic system, to eliminate its abuses, and to promote its expansion by stopping its concentration.

Russia is expecting us to destroy our economic power by letting the greed of a few close the door of opportunity to the many. Let us turn again to the economic message of Franklin D. Roosevelt of April, 1938:

> "The first truth is that the liberty of a democracy is not safe if the people tolerate the growth of private power to a point where it becomes stronger than their democratic state itself. That, in its essence, is fascism—ownership of government by an individual, by a group, or by any other controlling private power. . . .
>
> "Among us today a concentration of private power without equal in history is growing.
>
> "This concentration is seriously impairing the economic effectiveness of private enterprise as a way of providing employment for labor and capital and as a way of assuring a more equitable distribution of income and earnings amongst the people of the nation as a whole."

Then Mr. Roosevelt cited the facts which sustained his conclusions, outlining a program intended to be a defense of capitalism. Let us turn now to this defense and by our example show to all the peoples of the world wherever they live, before or behind the Iron Curtain, that Divine Providence placed resources beyond imagination at the disposal of His children, providing only that they have faith and the courage to utilize them as good neighbors.

I can think of no better conclusion than to reread the closing words of the economic message of Franklin D. Roosevelt:

> "No man of good faith will misinterpret these proposals. They derive from the oldest American traditions. Concentration of economic power in the few and the resulting unemployment of labor and capital are inescapable problems for a modern 'private enterprise' democracy. I do not believe that we are so lacking in stability that we will lose faith in our own way of living just because we seek to find out how to make that way of living work more effectively.
>
> "This program should appeal to the honest common sense of every independent businessman interested primarily in running his own business at a profit rather than in controlling the business of other men.
>
> "It is not intended as the beginning of any ill-considered 'trust-busting' activity which lacks proper consideration for economic results. It is a program to preserve private enterprise for profit by keeping it free enough to be able to utilize all our resources of capital and labor at a profit. It is a program whose basic purpose is to stop the progress of collectivism in business and turn business back to the democratic competitive order.
>
> "It is a program whose basic thesis is not that the system of free private enterprise for profit has failed in this generation, but that it has not yet been tried."

We've Been Asked:

CAN HOMEOWNERS SAFELY DEFAULT ON PAYMENTS?

- **Government guarantee of mortgages makes buying a house much like renting. Little or no cash is paid down; equity invested is small until after years of ownership.**
- **Quite a few people think they could just move out, like a tenant, and let the Government take over. This may be tried often if prices fall.**

Can you, with safety, just walk out of a house on which you owe money and let the Government worry about it?

No you cannot. You may have your mortgage insured or guaranteed by the Federal Housing Administration or the Veterans' Administration. This protects the company that loaned the money against loss, if you abandon the house or otherwise fail to keep up your monthly payments. But that doesn't end the matter.

Why not?

The Government may lose by having to pay the lender. This happens when the mortgage is foreclosed and the house is sold for less than the amount you owe plus certain costs. If there is any chance that you can make up some or all of the loss, the Government probably will try to collect from you.

How much does the Government try to get?

Rules differ, depending on the agency. VA tries to get the difference between fair market value of the house and the amount owed on the mortgage. This may be less than VA's actual loss. FHA tries to make good the full loss.

How does the Government collect?

VA may deduct its losses from any pension or other benefit it is paying to the veteran. In many—but not all—States, a "deficiency judgment" can be obtained by FHA or VA. This can be used to seize property, if the debtor owns any, or to obtain part of his wages or salary, wherever he may be.

Has this been done?

It has happened quite a few times. Of course, the Government has lost money only on relatively few mortgages backed during recent years.

Are such stern measures used in all cases?

No. Action depends partly on what State law allows and partly on the type of default. If the homeowner simply has bad luck—sickness or loss of job, for instance—and is not deliberately running out on the mortgage, he is quite likely to be given legal clearance, in return for title to the house, which will be sold for what it will bring; in such a case, the debtor is bothered no more if there is a loss. In a deliberate default, where there is no possibility of collecting, the Government may drop the matter; this would be most likely if the debtor has no income or property.

Can the homeowner escape foreclosure and loss of the house, even if he is unable to make some payments on his mortgage on time?

Yes. If temporary trouble is the cause, the bank or other mortgage holder usually tries to work out a plan that will enable the homeowner to catch up with payments later on. VA and FHA expect this.

How soon will a default be noticed?

Most lenders will write to ask "how come" in about 10 days.

How much time does a homeowner usually have to take care of a default before being foreclosed?

Depending on local laws, the time varies. Usually it is not possible to foreclose in less than two or three months. VA expects the mortgage holder to try for three months to work out a plan to cure the default; after that he can notify VA that he plans to foreclose in another 30 days; thus there are four months in all. Under FHA rules, the debtor can fall almost a year behind before foreclosure is mandatory; the mortgage holder can act sooner, however. The agencies provide for speedier action if the house is abandoned and likely to fall into disrepair.

Will a person who is foreclosed find it harder to borrow to buy another house?

He probably will. His credit rating will be hurt. There is a checkup on the person's credit rating whenever he tries to get a mortgage.

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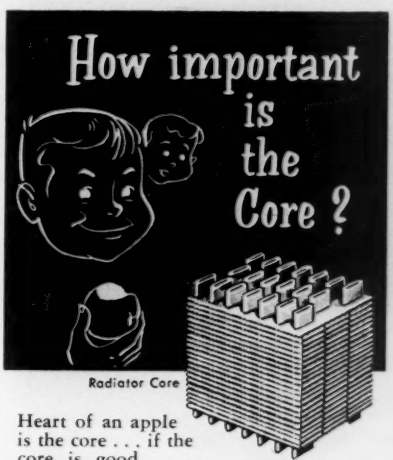
How important is the Core ?



Radiator Core

Heart of an apple is the core . . . if the core is good . . . . chances are the entire apple is good. Same way with radiators! Radiator cores made by Young Radiator Company are scientifically designed to meet specific heat transfer requirements. Sheet metal, cast iron or welded steel radiators have either stationary or removable one-piece nonferrous metal cores for quick, easy cleaning or replacement in event of damage. Consult Young Radiator Company about your heat transfer problems.

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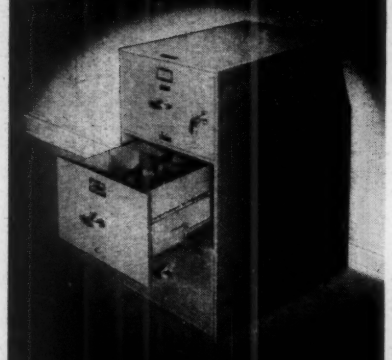
MARSH ELECTRIC DIAL TAPER

Are your files Incinerators?



Your uninsulated steel files, we mean. They're incinerators when a fire comes. That's one reason 43 out of 100 firms having a serious fire never reopen. Moral: Give your vital papers 24-hours-a-day, point-of-use fire protection in Hercules Multi-Lox insulated files carrying Underwriters' Laboratories labels. At your Meilink dealer or write Meilink Steel Safe Company, Toledo 6, Ohio.

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Most complete line of safes and insulated products

News-Lines

What you as a businessman ☑ CAN and ☒ CANNOT do as a result of federal court and administrative decisions:

☑ **PICKETING.** You can probably get a State court to enjoin violent picketing even if the picketing involves a charge of violating the Taft-Hartley Act. By refusing to review a case, the Supreme Court leaves in effect a State-court ruling upholding such an injunction although Taft-Hartley charges of an unfair labor practice were involved.

* * *

☑ **NICKEL.** You can perhaps obtain some nickel, for use in nondefense manufacturing, from supplies that had been scheduled to go into the Government stockpile. The Office of Defense Mobilization authorizes the diversion of an additional 2 million pounds of this metal for industry in February and March.

* * *

☑ **SECURITIES REGULATIONS.** You can find out from offices of the Securities and Exchange Commission about changes in its rules on the form and content of sales literature and advertising used by dealers and underwriters in the sale of investment-company securities. A revised statement of policy is available at SEC offices.

* * *

☑ **TAX DEDUCTION.** You can take an income tax deduction for the amount that you spend to rent a safety-deposit box in which to keep your series E savings bonds. The U. S. Tax Court holds that such expenditures are deductible as nonbusiness expenses.

* * *

☑ **SMALL BUSINESS.** You can find out from the Small Business Administration how independent laboratories can help business firms in research, testing and inspection of products. Free copies of the leaflet, "How Independent Laboratories Help Small Business," are on hand at SBA field offices.

* * *

☑ **CORN.** You can, as a farmer subject to Government restrictions on the planting of corn, probably plant a little more this year than in 1954. The Department of Agriculture eases by nearly 3 million acres restrictions for commercial corn-producing areas in 21 States.

* * *

☑ **TRADE RULES.** You can get from the Federal Trade Commission information about changes in the trade-practice rules for the fountain-pen and mechanical-pencil industry. The amended rules, which define various practices considered unfair, harmful or illegal, become effective February 28.

* * *

☒ **ONE-MAN COMPANY.** You cannot, as the owner of a one-man corporation, avoid paying an income tax on the full amount of profits withdrawn from the company even though part of the money is needed to pay the company's income tax. This is a decision of the U. S. Tax Court.

* * *

☒ **INCOME TAX.** You cannot, as a securities salesman, expect to treat as an ordinary loss, for income tax purposes, your loss on the sale of a single piece of rental property. A court of appeals upholds a district court ruling that such a transaction resulted in a capital loss rather than an ordinary one.

* * *

☒ **TARIFFS.** You cannot look for any early reduction in the federal tariff on hat bodies and fur felt hats for women. The White House announces that the President, agreeing with a finding of the Tariff Commission, has decided to continue present duty rates on these imports.

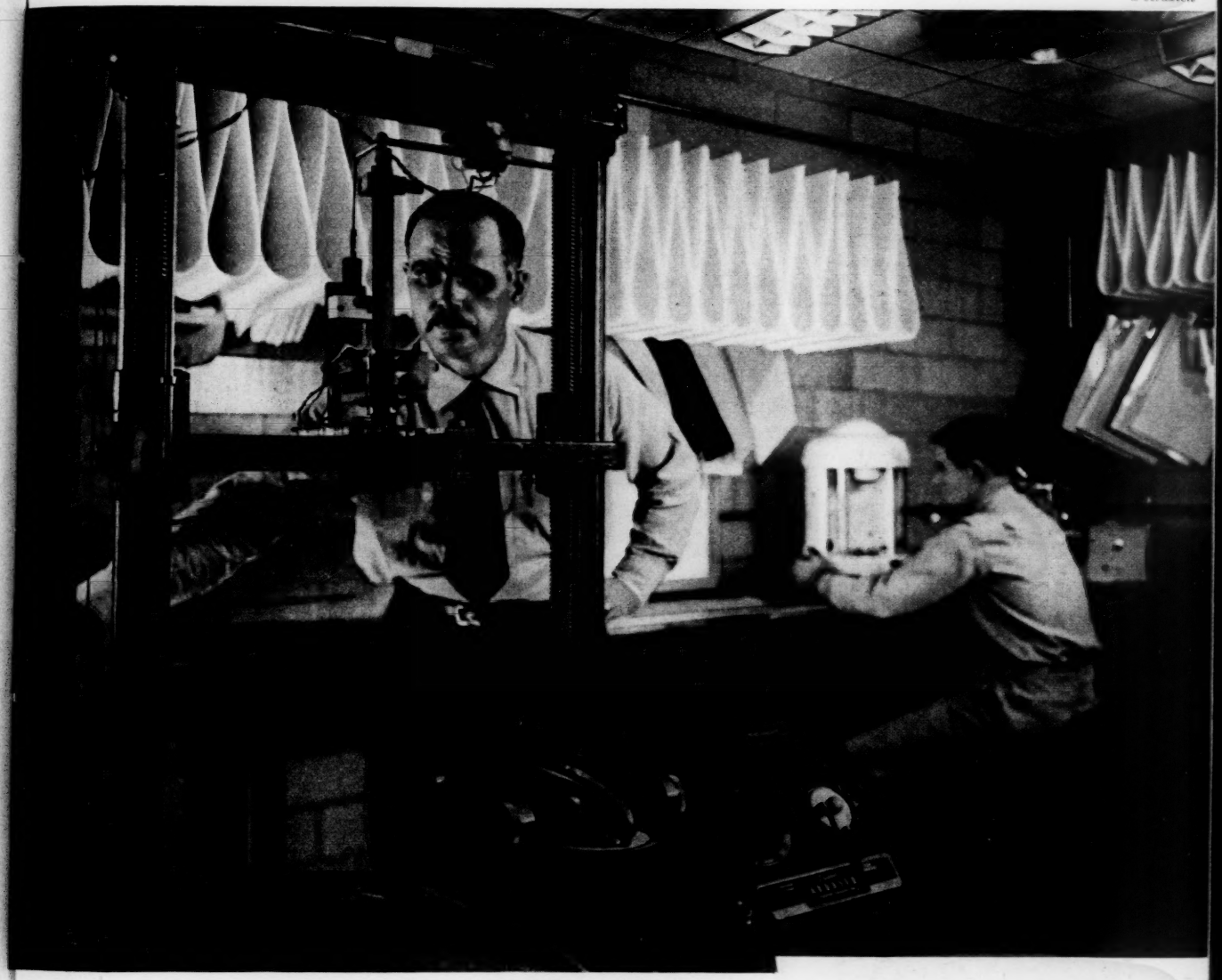
* * *

☒ **COLLECTIVE BARGAINING.** You cannot, as an employer, refuse to bargain with a certified union in your plant during its first year, even if it loses its majority under "unusual circumstances." A court of appeals holds that an employer may not take it upon himself to stop bargaining for such a reason. Instead, the court says, the employer's claim must be submitted to NLRB.

Conclusions expressed in these paragraphs are based upon decisions and rulings of courts and Government Bureaus. In making their decisions, courts and bureaus consider many facts which, for reasons of space, cannot be set forth in detail. U. S. NEWS & WORLD REPORT, *on written request, will refer interested readers to sources of this basic material.*

CHAMPION Sets the Pace in Papermaking

d'Arazien



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Modern research makes the most of material, man, and machine at Champion. A balanced program of research and development assures Champion customers of better grades, superior qualities, and new ideas to keep pace with the growing demands of our modern industrial economy. Through such efforts, Champion perfected a chemical process for producing fine white paper from Southern pine . . . developed brand-new machine-coating techniques . . . produced its most spectacular accomplishment—Kromekote cast coated paper . . . and made other important contributions to papermaking.

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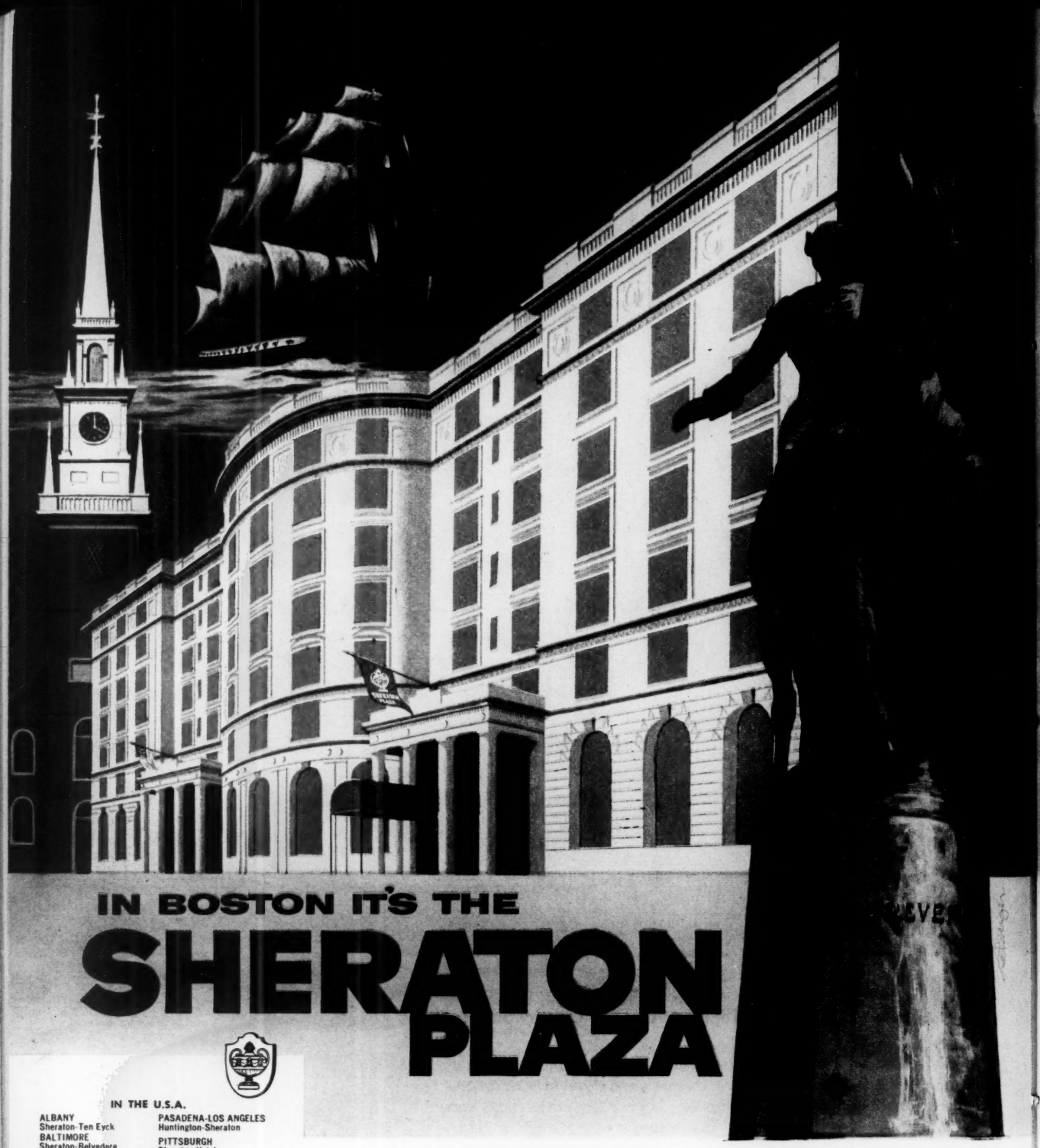

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CINCINNATI
Sheraton-Gibson
DETROIT
Sheraton-Cadillac
NEW YORK
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PASADENA-LOS ANGELES
Huntington-Sheraton
PITTSBURGH
Sheraton Hotel
PROVIDENCE
Sheraton-Biltmore
ROCHESTER
Sheraton Hotel
SAN FRANCISCO
Sheraton-Palace
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Sheraton Hall — Washington's largest ballroom — opens May 1st at the Sheraton-Park Hotel.

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Special Report

(This article represents the result of an extensive research on a problem of outstanding importance.)

CHOICE AHEAD—HIGHER PAY OR LOWER PRICES

Will a new cycle of wage increases touch off more inflation?

Since 1939, wages and prices have been chasing each other upward. Now prices have stopped rising, but unions still press for pay gains.

This pressure has been credited with winning workers a bigger share of national income. Now, for reasons given below, opposition to wage boosts grows more determined.

Unions aiming at another round of pay raises this year will be told by management that some of their main claims for higher pay have lost weight during the last few years.

In steel, autos and other industries, as a result, the bargaining may be a good deal tougher than before.

Inflation in prices no longer is found to be solid argument for higher pay, as claimed so often in the past. There has been no rise in the official cost-of-living index during the last year. And union workers, along with other consumers, are getting the benefit of many reductions in price that aren't fully reflected in the index.

Over the years, the average weekly wage has risen much more than the cost of living. So unions have no catching up to do.

Another chief argument, now found to be losing weight, has been "productivity"—the idea that, as better machines, better methods or higher levels of output bring down the unit cost of making goods, the workers should get a big share of the benefit, in the form of higher pay.

Figures show that wages have risen in recent years a good deal faster than the gains in productivity. Since 1948, output per man-hour in the factories has gone up 26 per cent. But average hourly earnings have gone up 33 per cent.

On the average, the cost of turning out a manufactured item now is higher than it was in 1948, despite billions spent on new machinery to cut costs.

(Continued on page 92)

EMPLOYES HAVE MADE THE BIG GAINS

Share of national income*

Wage and salary earners

1929	1947	1954
58.2%	65.3%	69.1%

Corporations, after dividends

1929	1947	1954
4.9%	8.7%	8.4%

Stockholders

1929	1947	1954
6.6%	3.3%	3.3%

Professional people, small businessmen

1929	1947	1954
10.0%	10.1%	8.6%

Farmers

1929	1947	1954
6.8%	7.3%	4.0%

Other (interest, rents)

1929	1947	1954
13.5%	5.3%	6.6%

*Based on income before taxes

Source: 1929-47, Commerce Department; 1954 estimates by Economic Unit of USN&WR

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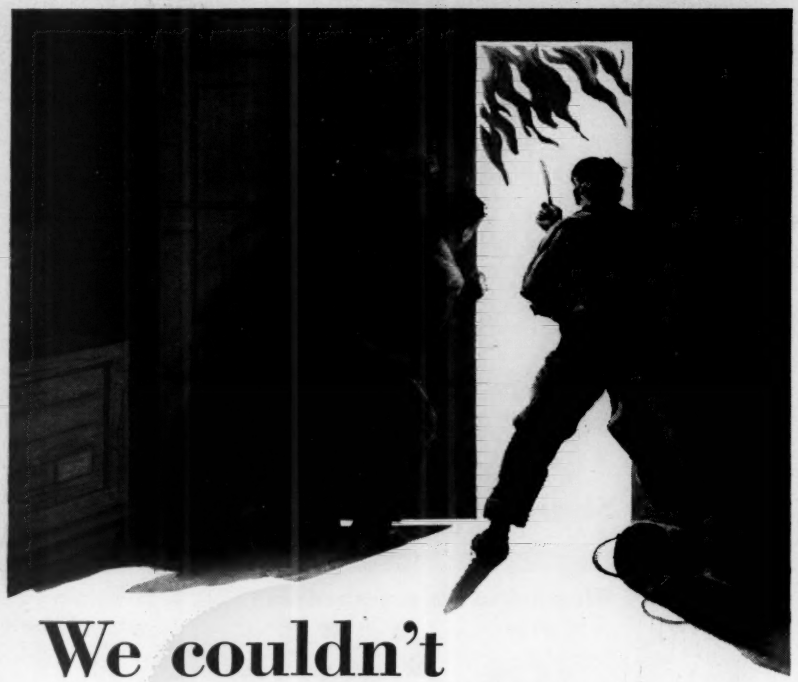


We couldn't put out the fire

But with the Hartford's help, we quickly paid off $28,893 in customer claims

(Based on Company File #HM54-324)

It was just before a holiday. As usual in the dry cleaning business, we were up to our ears in clothing bundles. Maybe that's why nobody noticed anything wrong until the fire had actually burned through the ceiling.

We turned in an alarm, but there wasn't much we or the firemen could do to save the plant.

Next morning, the men representing our insurance company set up an office nearby. The moment they verified each customer's claim, the Hartford Fire Insurance Company paid us the money. Then we mailed our check to the customer, with a letter from our president.

Within 16 days after the fire, we paid 622 claims this way. There were 808 all told, so you can see the Hartford was really moving along fast. With their help, we were able to pay every claim so quickly and so fairly that we found customers talking about us all over town.

Naturally, this talk didn't hurt our reputation a bit. We have almost *twice as much business now* as we had before the fire!

You buy insurance for protection.
But, as the story above proves, *service* is important, too.

That's why it's always good business to insist on insurance in the Hartford. They are set up to move fast when called upon for help.

Get the dependable protection *you* need — backed up by the Hartford type of service. See your Hartford Agent or your insurance broker *today*.

Year in and year out you'll do well with the

Hartford

Hartford Fire Insurance Company • Hartford Accident and Indemnity Company
Hartford Live Stock Insurance Company • *Hartford 15, Connecticut*

New round of wage hikes would not help everyone . . .

Only in the last year has there been some chance for costs to come down; output per man-hour at the machines went up a trifle faster than wages in 1954. Even a small pay increase in 1955 would more than wipe out that gain.

Who got the gravy? The chart on page 91 shows one effect of earnings rising faster than living costs and faster than the progress made in industrial know-how. Pay and other financial benefits for employes now account for a larger share of the national income than ever before.

Benefiting from that are many salaried employes, as well as the wage-earning workers. But other Government figures indicate that wages have been growing faster than salaries.

Corporations, after gaining in World War II, now get a smaller share of the national income than they did in 1947. When tax increases are taken into account, the corporate share is smaller than it was in 1929.

Stockholders, who risk the funds to provide the machines, are barely holding their own. They are getting a very small fraction of the national income, smaller than in 1929.

Farmers and other self-employed people are not doing as well, relatively, as they were in 1929 or 1947. Their shares of the over-all income have shrunk.

Because of these changes, the unions' new request for higher wages is being met by some economists and businessmen with a plea for lower prices instead. Their thought is that progress in cutting costs in industry should lead to price reductions, lower living costs for everyone, not to a still larger share for the wage-earning group.

At most, a general round of wage advances can be expected to be a direct help to no more than half the nation, according to calculations by the Economic Unit of *U. S. News & World Report*. This assumes that, in most companies, salaries will go up promptly, if wages go up.

The half that would get left behind includes the farmers, rural townspeople, domestic servants, the armed forces, others on public payrolls, also the doctor, the lawyer, the shopkeeper, the shoe repairman, and anyone else who is self-employed. Many in this group still are trying to catch up with the inflation that halted over a vear ago.

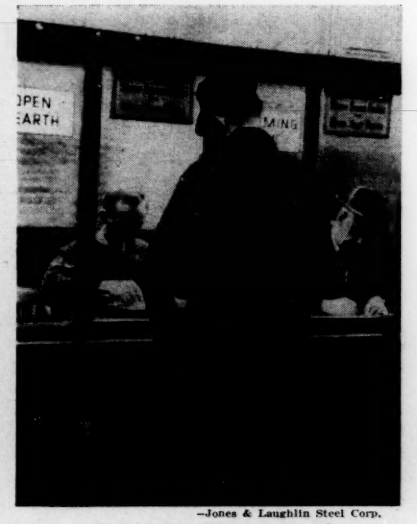
On the basis of these figures, the argument is being made by management that price reductions would help at least twice as many people as wage raises.

. . . Coming up this spring: wage talks in autos, steel

But that idea will be hard to sell to the unions. Their answer is that prices will not necessarily come down if labor costs are reduced through greater productivity. Last year, they point out, manufacturers as a group raised their wholesale prices a trifle, even though wage costs, per unit, were reduced.

The trouble is that other factors, besides wages, enter into the picture. Cost of materials or higher taxes can lay the groundwork for a price rise, even if labor costs decline. In times when the market is strong, the manufacturer may decide to hold his price up in order to increase profits.

These problems will be facing the union leaders and the industry men when the big talks over steel and autos come up this spring.



—Jones & Laughlin Steel Corp.

ON PAY DAY . . .
. . . a chain reaction?

The situation in autos. In the auto industry, you find these trends over the last few decades—

- In 1919-29, when the industry was getting out of its swaddling clothes, labor cost was reduced by about $114 per vehicle, on the average, and the factory price was reduced more than twice that much, about $286.
- From 1929 to 1952, labor cost went up about $353 per vehicle; factory price went up more than twice that much, about $944. Materials and taxes also were going up steeply.
- Since 1952, labor cost has been reduced, through automation and other economies, by about $76 per vehicle;

(Continued on page 94)

everyone
can use it . . . and does!

He has a figuring problem—so, naturally, he's borrowing her Remington Rand All-Electric Adding Machine. Figures are entered on the simplified ten-key keyboard with ease and accuracy. The swift electric action *adds, subtracts* and *multiplies* . . . and proof is on a two-color tape to provide a permanent record for your files. This new Remington Rand Adding Machine is so easy to use—it will prove to be most popular with everyone in *your* office. Complete details in free folder AD567. Address requests to Room 1212, 315 Fourth Avenue, New York 10, New York.

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It isn't easy for anyone to describe with accuracy the precise size and weight of the fish he caught.

Likewise it isn't easy for most people to stick to the facts when talking to others about your product or your company. Some are inclined to exaggerate to the point of disbelief. Some tend to minimize or belittle.

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Steel price since 1947 has risen 57 per cent . . .

factory price has come down, on the average, about $82.

Those are rough estimates, based on Government data on total payrolls and output of the auto and truck manufacturers. From them, the industry may claim that, in the last few years, it has been reducing prices as labor costs came down. It can argue also, from history, that sizable pay raises and other costly benefits have helped bring about big increases in the price of automobiles.

Back in the 1920s, when auto prices were coming down, the workers saw their pay envelopes getting fatter but not in keeping with gains in productivity. Average weekly wages in the auto plants went from $27.53 in 1919 to $32.15 in 1929, a rise of 17 per cent.

In the 1947-54 period, wages in the auto industry have gone up faster than gains in output. The increase in pay has been from an average of $57.45 per week to $88.85, a rise of 55 per cent. Cost of living in this time went up 20 per cent.

The contracts between auto unions and companies already guarantee pay raises to offset any rise in cost of living and also to reward workers for "normal" increases in productivity.

Their chief demand this year is for an annual-wage guarantee, to help the members ride through the slack season. Cost of doing this might be high, equal to a big pay raise and enough to raise the cost of production, according to the industry.

The situation in steel. In the steel industry, output per man-hour has gone up 18 per cent since 1947, thanks partly to the big, new mills that have been built. Weekly wages, in the same period, have gone up 48 per cent. So the gain in productivity has been more than wiped out by higher pay. Labor cost per ton of steel is up 31 per cent.

Cost of materials for making steel is only slightly higher than in 1947. But steel companies have raised prices more than enough to offset any rise in costs. Price of steel has increased 57 per cent since 1947, according to the commonly accepted index.

Profits of steel companies, even in the 1954 year of partial recession, were larger than in 1947, before taxes were paid. But higher taxes skimmed off all the increase in profits.

Wage gain vs. price rise. Rising wages have been passed on to the customer in this manner by many other industries. As a result, pay boosts have netted workers less than they hoped, and subsequent price increases for goods

. . . "Chain reaction" can cancel pay raises

have been a burden to consumers generally.

From 1939 to 1954, the average weekly wage of the factory worker went up 200 per cent. But consumer prices went up almost half that much. As a result, the worker's gain in "real" wages was about 55 per cent.

In other words, the average wage earner in a factory is ahead about 25 cents for each dollar of pay raise obtained since 1939. A kind of chain reaction has helped to cancel out the rest.

Higher wages, when spent, increased the demand for goods. This helped make it possible for producers to raise prices more easily. Fact that labor accounts for about 64 per cent of the cost of all non-farm goods and services was an incentive.

Today, industry leaders are warning that they will continue to pass higher labor costs on to the customer in the form of higher prices, whenever they can do so. The reason they give is the need to provide a better return to their investors. This concern for investors was stressed recently by Benjamin F. Fairless, the chairman of the board of the United States Steel Corporation, when that company raised its dividend two weeks ago:

"Each year it is becoming increasingly necessary for industry generally to find funds for investment in new tools if rapid progress in this country is going to continue. . . . For this, stockholder investment is necessary and adequate return to stockholders on their investments is a 'must.'"

The last time the steel industry granted a pay raise, steel prices were quickly raised.

In the months ahead, businessmen figure the chances are good for some gradual reduction in retail prices, as productivity increases—unless higher wage rates produce unexpected inflationary pressures that will prevent such reductions. Competition is forcing price cuts on many products.

This prospect of a slow decline in cost of living could mean gains for all consumers. A large increase in wages, if it led to more inflation, would reserve most of the gain for the wage earners and those salaried employes whose pay is closely related.

That is what has been happening for many years. It is based on a policy that has paid off, in some measure, for the unions. So they are not likely to change tactics. And yet opposition now is becoming more widespread and determined.

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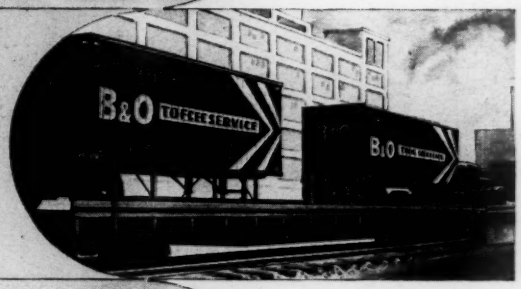

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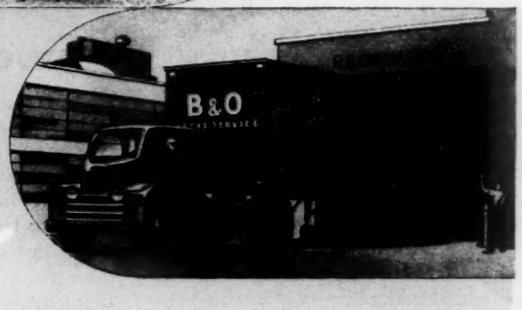

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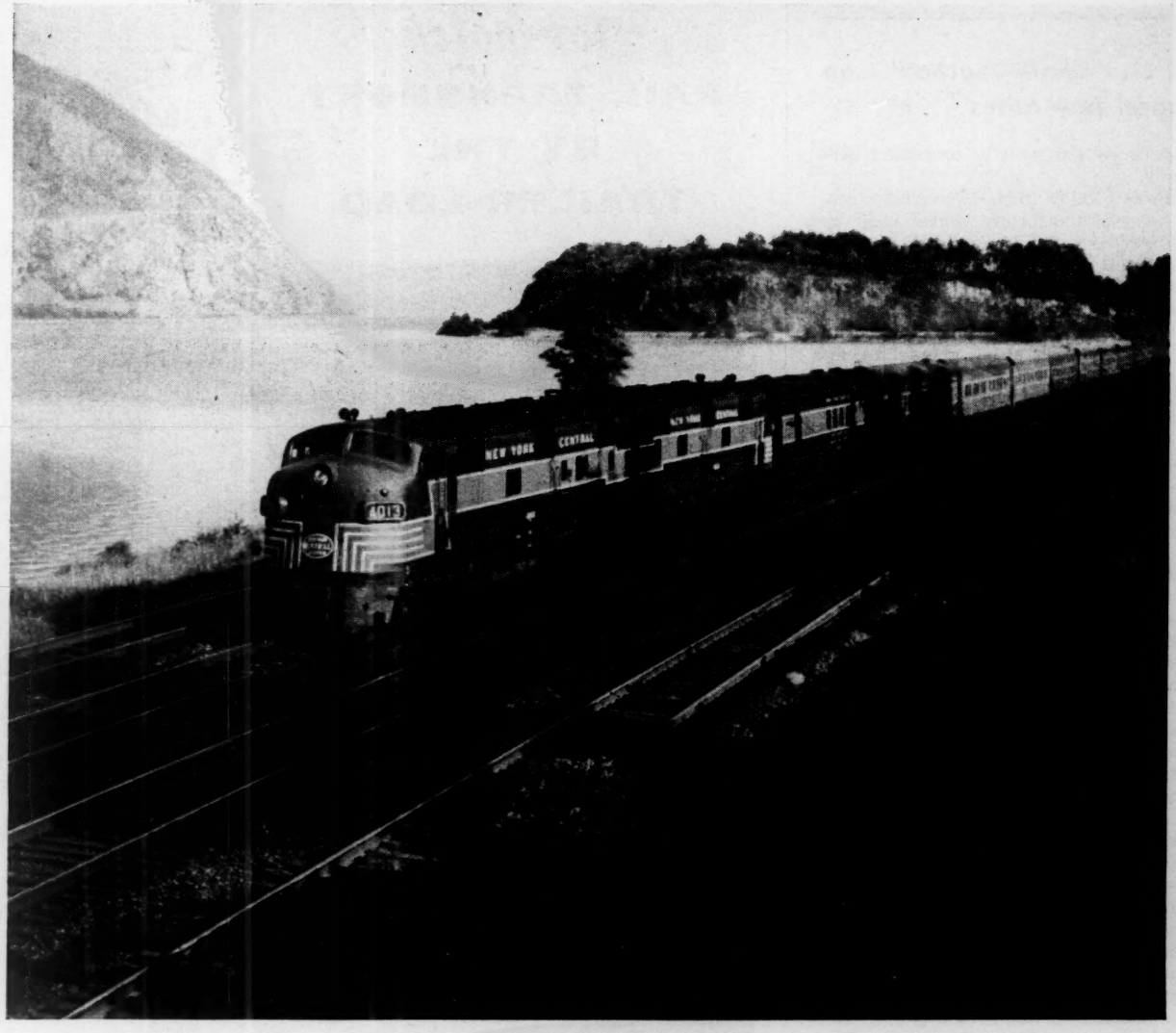

This busy highway is paved with Steel

The crack passenger trains and swift freights now serving shippers and the traveling public roll on a smooth, durable highway in which the chief element is steel—the steel railroad rail.

While railroad men are adding so many innovations giving new appeal to transportation by rail, steelmakers are turning out the heavier, longer-lasting rails that modern service requires.

To get an idea of the kind of burden a railroad rail must carry, stand by the track as a fast express goes thundering past, and keep your eye on the rail. The railroad rail must stand up year after year under speeds that are often as high as 100 miles per hour and trains weighing thousands of tons. Nothing made of steel is more deserving of respect than the modern railroad rail.

Rails installed today are not only much heavier than those of a generation ago. They are tougher, more durable, more dependable, thanks in part to three major developments advanced by Bethlehem:

Control-Cooling prevents the formation of internal flaws called "shatter cracks" that used to cause failures. Some railroad men call control-cooling the greatest single advance since the birth of the steel railroad rail itself.

End-Hardening gives the rail-ends extra hardness for improved resistance to terrific battering at the rail joints.

Heat-Treatment improves the properties of rails to lengthen their life in severe service, such as on curves, and on switches and crossings.

There is a further reason why rails are more capable today. Rails are better because the steel itself is better. Steelmakers are always looking for ways to make a better product, and rails, like other forms of steel, share in the benefits of these advancements.

BETHLEHEM STEEL

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You can see now why officials are allowing credit to tighten a bit.

On-the-cuff buying is increasing. People are more inclined to borrow.

Installment buying in December went above 3 billions, for a record. That was the amount of new credit advanced for purchases of autos, other goods.

At year end, individuals owed more than 30 billions in consumer debt.

Borrowing to buy stocks also seems to be rising. A study by the New York Stock Exchange shows that 52.5 per cent of individual transactions was done on margin last December 8 and 15. That compares with 42.4 per cent in March, 1954, and only 34.2 per cent in September, 1952.

In addition, the demand for mortgage credit stays high.

These trends explain recent Federal Reserve Board policies.

Reserves of commercial banks--the basis of loanable money--have been allowed to shrink in recent weeks.

"Free" reserves, the difference between what banks have on deposit with the Federal Reserve and what other banks owe to the System, fell to 154 million dollars for the week ended February 2.

That was the lowest amount of free reserves since August, 1953.

What the Federal Reserve is saying, through its actions, is this.....

Slow down a bit. Don't let the current optimism lead you to overextend yourself. Don't even start to sow the seeds of another inflation.

Business upsurge is encouraging, but don't feed it with too much credit.

You get a detailed account of this policy in an interview on page 54, with Federal Reserve Board Chairman William McChesney Martin, Jr.

Basic aim of the Federal Reserve is to supply business with enough credit to keep on expanding, but not so much as to encourage a speculative boom. To date, actions have been relatively mild, not drastic.

You can see results of the recent expansion in several places.

Factory shipments, which rose in November, advanced again in December. Manufacturers of durable goods had their best month in more than a year, led chiefly by automobile companies and producers of electrical machinery.

New orders are in a pronounced rise. They went from 23.9 billion dollars in October, to 24.4 billion in November, and to 25.3 billion in December.

Unfilled orders--the factory backlog--remained fairly stable during the month at 47.3 billion dollars. They had been declining.

Further evidence also points to the end of the inventory adjustment that had been going on in industry for more than a year.

Inventories, considering the season, seem to have leveled out.

(over)

Value of factory inventories is reported by the Commerce Department to have been steady at 43.8 billion dollars, seasonally adjusted, since October.

This shift in inventory policy is important. It means that, as goods are processed and sold, new replacements are ordered. That stimulates production. Through most of last year, replacements were delayed as inventories were cut.

People's incomes also reflect the upturn in business activity.

Total personal income in December rose to a rate of 291.1 billion dollars a year. That was a gain of 1.8 billion from November.

Income rise during the month came chiefly from higher dividend payments. Year-end extra dividends this year were reported to be unusually large.

The rise in dividends shows both business profits and business confidence.

Wage and salary payments dipped slightly in December, after rising for several months. Payrolls for the month ran at a rate of 197.4 billion dollars a year, compared with 198.1 billion a year for November.

December payrolls, however, were running 1.4 billions a year higher than in December, 1953. That's another sign of business recovery.

Independent businessmen boosted their rate of income in December as a result of increases in most lines of retail trade.

For 1954 as a whole, people's total income topped that of 1953.

Recession of 1954 failed to put a dent in the aggregate.

Total payments came to 286.5 billions in 1954, 286.1 billions in 1953.

Wage earners and farmers, however, got less last year than in 1953.

Dividend and interest payments increased over the previous year.

Social Security payments, including veterans' benefits, rose 2.1 billions over the previous year, almost offsetting the decline in wages and salaries.

The offsetting rise in Social Security as wages fell is an example of one of the "built-in stabilizers" that economists now talk about. The income of individuals tends to hold steady as a result of these payments during a mild business decline. That is the purpose of the system.

Personal income, after taxes, rose during 1954. The official estimate is nearly 254 billions, an increase of 3.5 billions over 1953.

Income tax cuts had a major part in keeping disposable income high.

The fact that after-tax income held up through the year explains why individual spending was maintained at a high rate. Retail sales in 1954 were higher than in 1953, despite the drop in business activity.

The high rate of income payments makes debt burdens easier to carry.

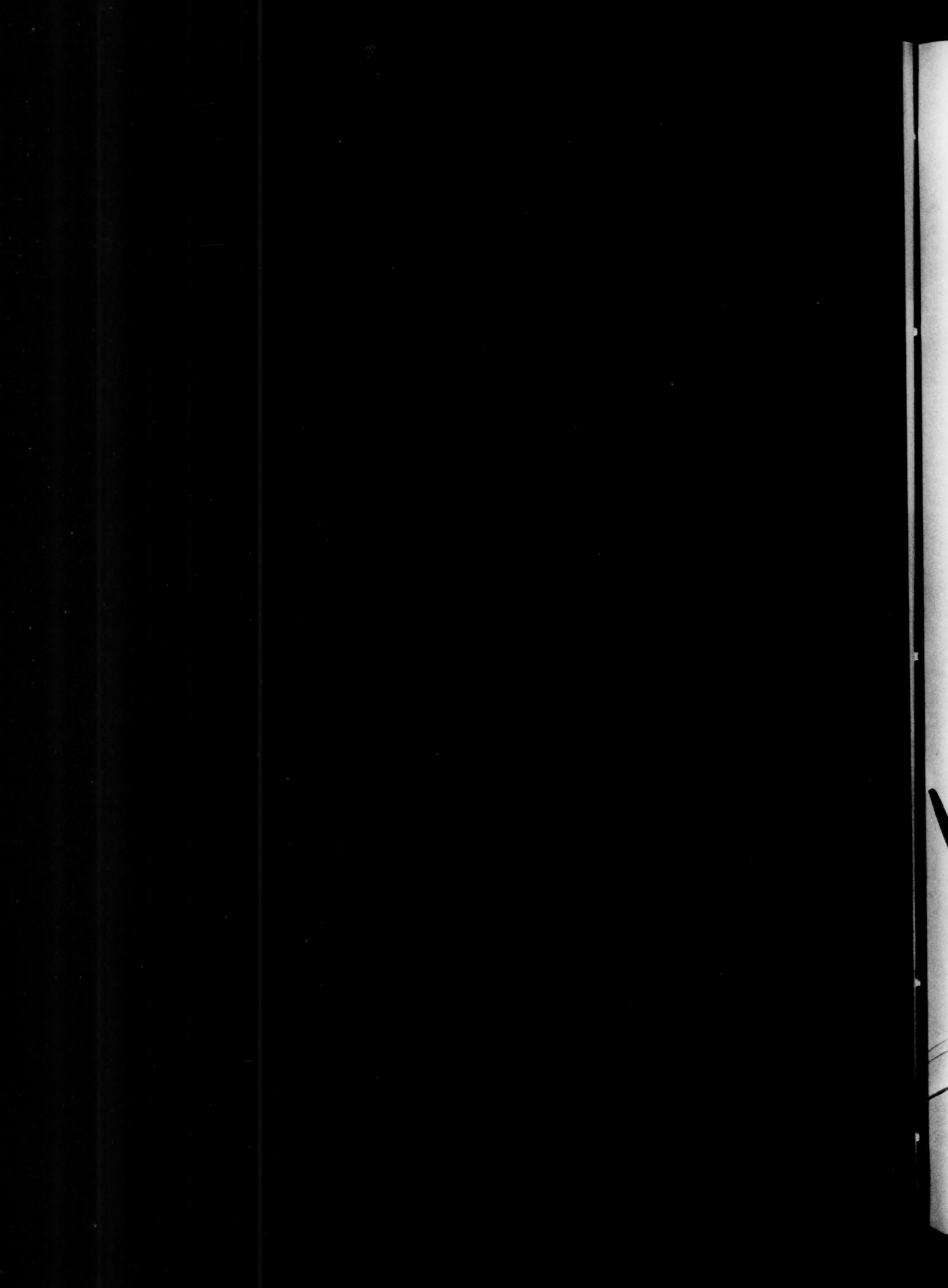
Total consumer debt outstanding at year end amounted to 11.8 per cent of people's after-tax income. A year earlier it was 11.5 per cent.

Rise in debt during the year does not seem to be out of line with income.

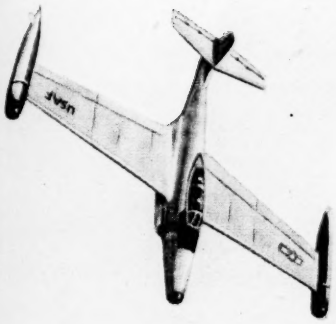
People also paid off a record amount of personal debt in 1954.

Installment debt repaid in December came to more than 2.5 billions. That was 177 millions more than was repaid in the same month a year earlier.

Annual rate of debt repayments at year end came to 12.2 per cent of total after-tax income. People seem to be good credit risks at this time.



Vital Weapons



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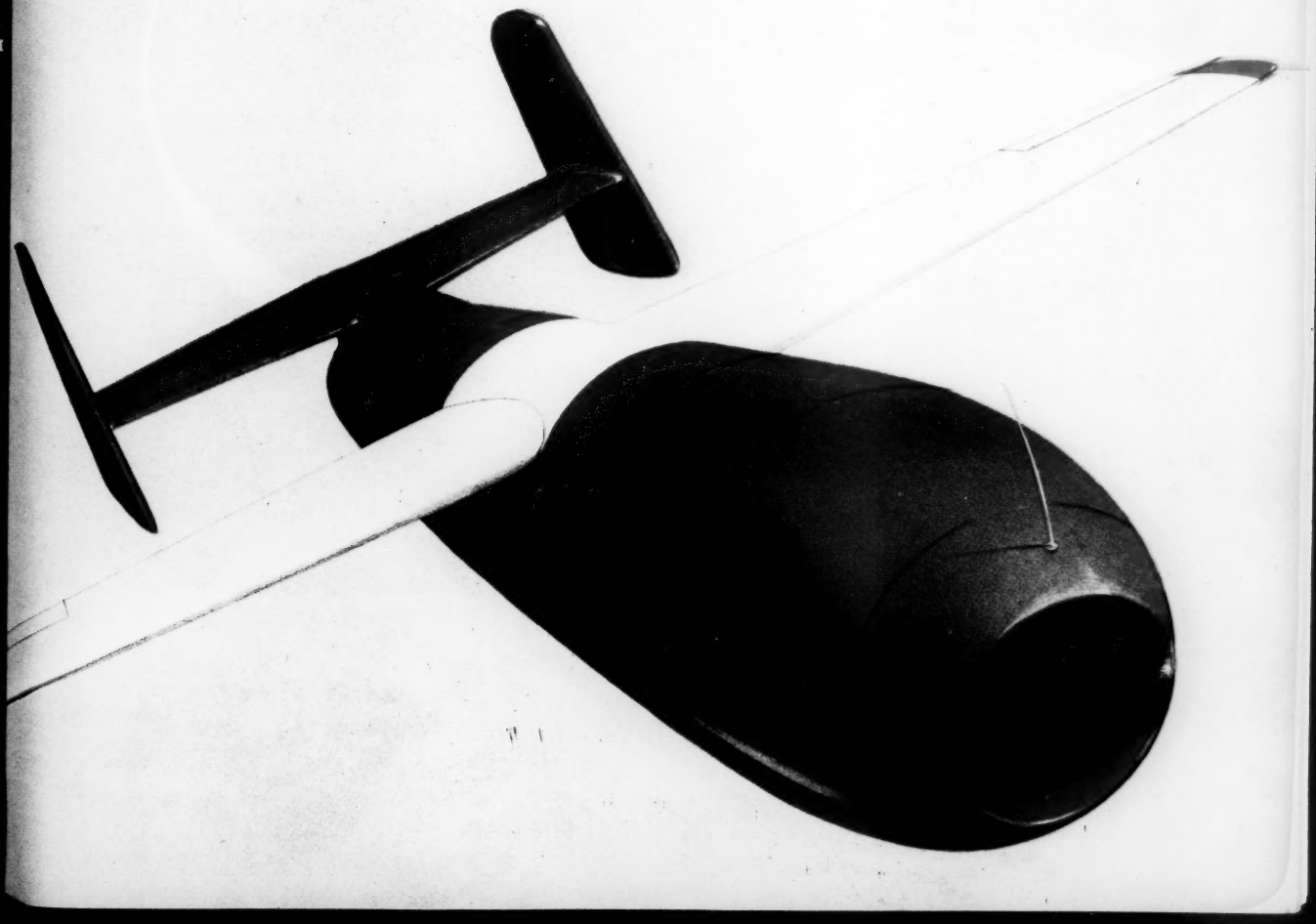

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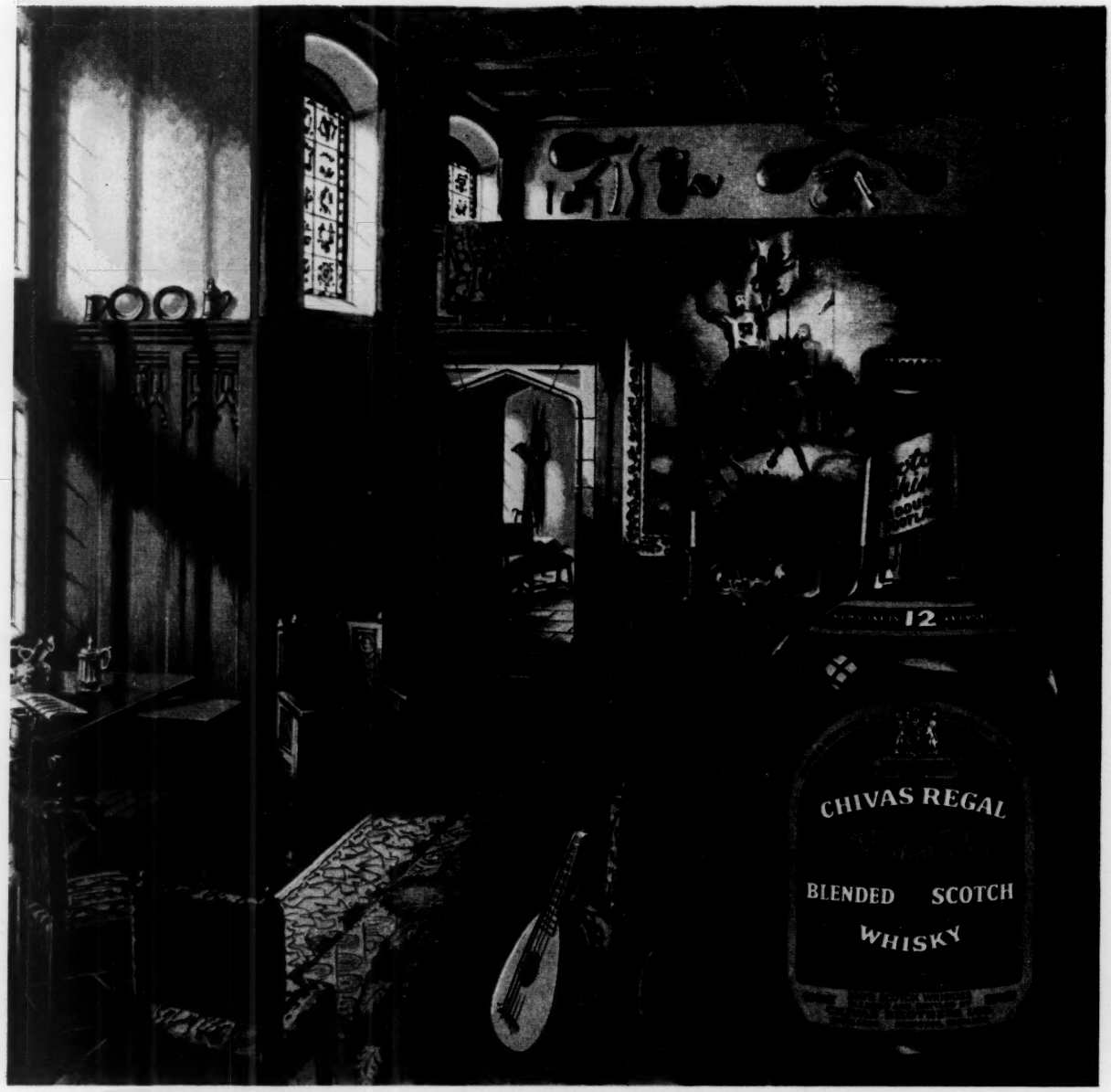

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LATEST IN UNION HIGH FINANCE

Labor Investing More and More Money in Industry

What happens when a labor union buys into business?

Question arises because some unions, using money from welfare funds, are buying up corporate stock. Union leaders deny it's a short cut to getting a labor contract, say they're only looking for good investments.

Unions-in-business trend, however, seems well under way.

Financial deals of labor unions are raising new questions for employers.

In one deal, a union is investing 2 million dollars in a company with which it is trying to get a labor contract. In another deal, a union recently bought an insurance company as an investment. Unions, generally, are showing a growing interest in investing some of their surplus funds in the securities of private businesses.

Why this swing away from the traditional practice of investing almost exclusively in Government bonds and real estate? Are some unions, it is asked, trying to buy their way into bargaining contracts by acquiring big blocks of stock in companies that have resisted them? Are the big unions out to guarantee themselves a steady source of union dues by investing in companies where they already have contracts?

The billions that are piling up in welfare funds must be invested somewhere, and the unions often control the placing of these funds. If there is a growing trend toward purchase of corporate shares, will unions eventually be in a position to share in the management of the companies in which they have invested?

For answers to these, and other questions, employers at the moment are watching the activities of one big labor organization, the AFL Teamsters.

A 2-million-dollar deal? The Teamsters Union, through a welfare fund, owns a million dollars' worth of stock in Montgomery Ward & Company and is investing another million. The union is trying to win a bargaining contract with the company, covering two thirds of its 30,000 employes.

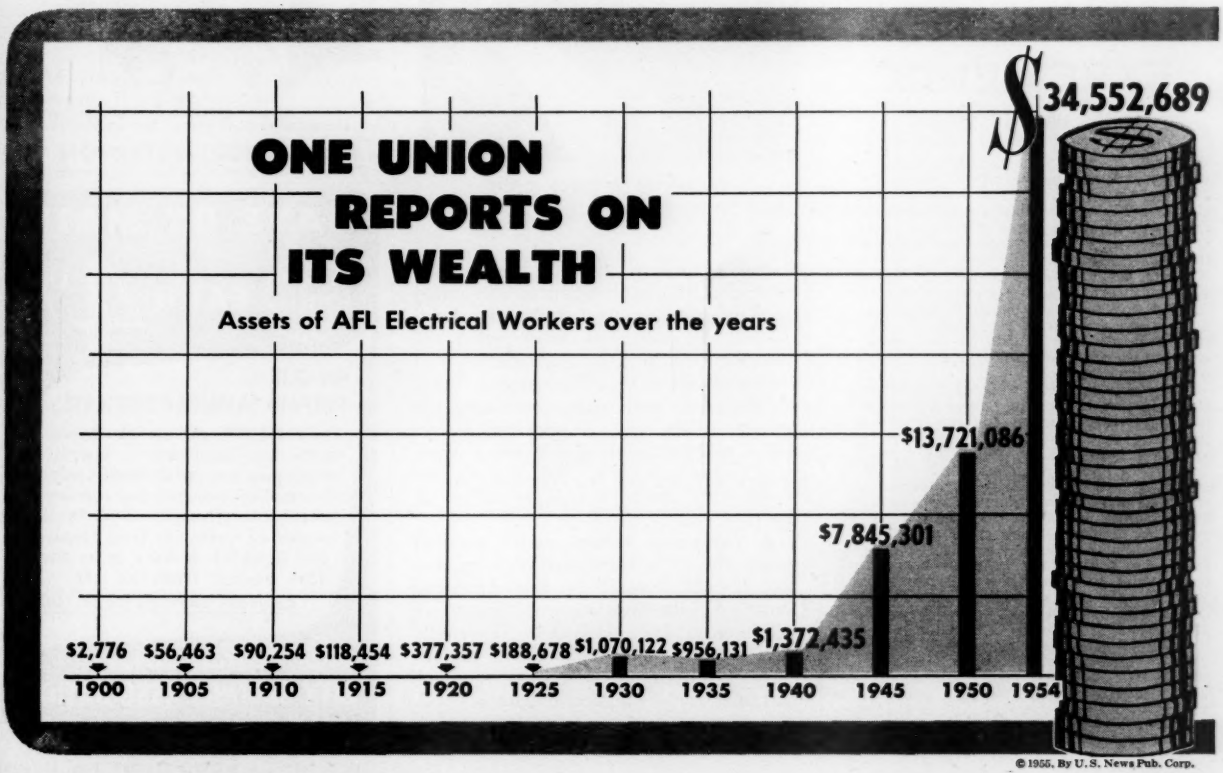
The Teamsters' interest in Montgomery Ward comes at a time when there is a struggle for control of the company. There have been rumors that the Teamsters hope to use their stock proxies as the basis of a deal with one side in the fight for control. The theory is that they might be able to exchange the proxies for a promise to grant a labor contract.

Dave Beck, president of the Teamsters, however, denies the reports. He insists that the stock purchases were made for investment reasons only.

Mr. Beck contends that his union's 28,000 shares of stock would not carry much weight in the proxy fight involving more than 6.5 million shares.

About a year ago Mr. Beck put up a million dollars or more of union money to help Roy Fruehauf, president of Frue-

(Continued on page 102)



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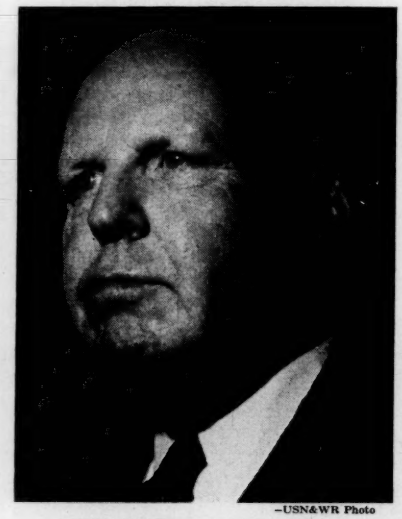
. . . Welfare funds used by Teamsters for stock

hauf Trailer Company, retain control of the Detroit firm in a proxy battle.

In the Fruehauf case, Mr. Beck said that he lent the money to the company, with stock posted as collateral, and then assigned voting rights back to the company. Mr. Beck at the time explained that the Teamsters' constitution did not permit outright purchase of the stock.

The union itself did not buy the Montgomery Ward stock. It was bought by the Central States Welfare Fund of the Teamsters.

For investment: 34 millions. Mr. Beck wants to change the union's policy to permit stock buying on a large scale. He may wait until the next convention



–USN&WR Photo

TEAMSTERS' DAVE BECK
. . . millions to invest

of the Teamsters, in 1957, or he may issue a new interpretation of the union constitution without waiting that long. He has the power to decide what the constitution means, he explains.

Net worth of the Teamsters is listed at 34 million dollars, not including the pension funds that are operated by regional union officials and trucking company representatives. The union's net worth rose nearly 5 million dollars in the past year.

A company taken over. Another union, the AFL Electrical Workers, has just bought control of the American Standard Life Insurance Company, of Washington, D.C. The union reportedly paid about a million dollars for a majority stock interest in the company, which had assets of 4.9 million dollars in 1953.

(Continued on page 103)

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1656 W. Chicago Ave., Chicago 22, Ill.

. . . Banks and businesses are owned by unions

The purchase, according to the union's president, J. Scott Milne, was for investment reasons. He recently reported that the electrical union had more than 48 million dollars available for investment in its various pension funds. Of this total, 24.5 million dollars of pension money is in the union's own treasury, part of the more than 34 million in assets shown in the chart on page 101. Much of the pension money is in funds operated jointly by the union and electrical contractors.

Some of the Electrical Workers' funds are invested in corporate stocks. Mr. Milne has stated that the union buys common stock only in companies that have paid dividends continuously for 25 years. The union also invests in Government bonds, in grade-A industrial bonds, preferred stocks, real estate mortgages, FHA loans, VA loans and conventional mortgages.

Mr. Lewis as banker. Employers, wondering about these new union moves in the investment field, recall that John L. Lewis in recent years has become a banker, with the help of the large treasury of the United Mine Workers and its welfare fund. The fund has invested heavily in the National Bank of Washington, now the second largest in the capital.

Another union in the banking business is the CIO Clothing Workers, which owns two banks, in New York and Chicago, as well as two insurance companies. The latter handle the union's welfare funds totaling about 108 million dollars.

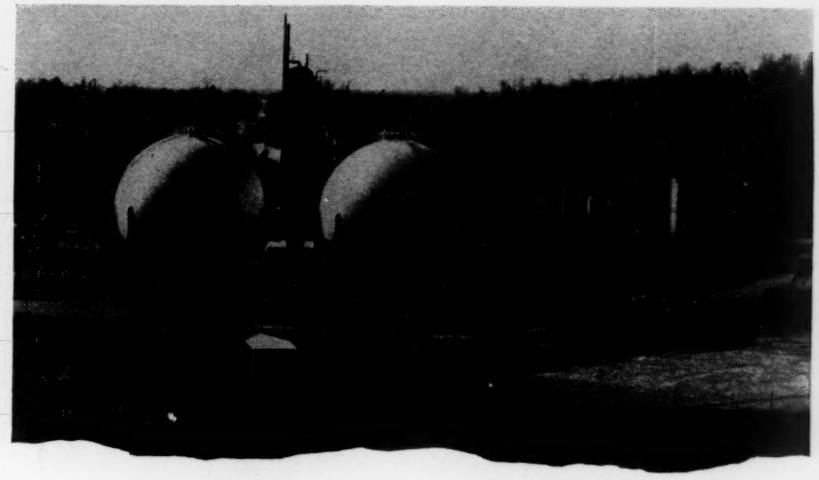
A union as landlord. A different type of business deal by unions raised some questions last year when the AFL Ladies Garment Workers built a $40,000 dress factory and leased it to a manufacturer. The plant, at Appomattox, Va., provided jobs for members of the union who were idle because of a strike.

The union decided, when it could not settle the strike, that it would be better business to finance a plant for a competitor of the company against which it was striking. The new plant operated under a union contract.

These are a few of the unions that recently have invested in private businesses. Others are preparing to invest part of their funds in corporate stocks, to increase revenues.

Union "laws" a barrier. Before most unions can invest in stocks, however, they will have to revise their union constitutions or "laws." The rule in most cases is that union funds can be invested only in Government bonds. Some unions go

(Continued on page 104)



"Ideal Site, Markets Brought Us South"

KENNETH A. SPENCER
President
SPENCER CHEMICAL COMPANY

"Our decision to locate a plant at Vicksburg was made after a careful survey of markets, transportation costs, fuel and other factors. This survey showed Vicksburg to have a concentration of industrial and commercial outlets to the south and east. Natural gas and freight rates were then weighed, and Vicksburg provided the ideal location for our expansion plans.

"We have found a high type employee here, both technical and laboring types, and we have received a grand reception from this community. We already have expanded our facilities and foresee a bright future for our new Vicksburg operation."

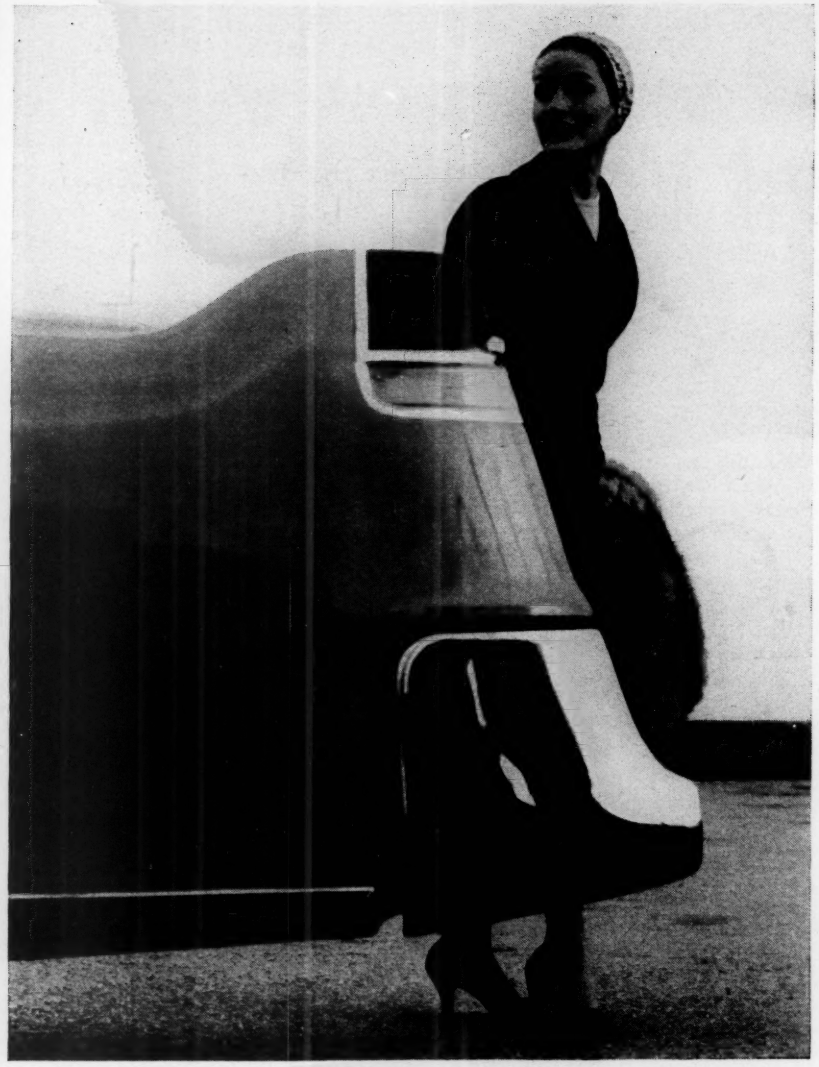
Spencer Chemical Company is but one of numerous nationally known industries which are operating successfully in a state which offers not only a hand of welcome but which provides many other advantages of a strategic centrally located Southern site.

These advantages include growing Southern markets, large reservoirs of intelligent, cooperative labor, abundant fuel and electricity and immense stores of raw materials.

One advantage not to be found elsewhere is Mississippi's BAWI (balance agriculture with industry) plan under which political subdivisions may vote bonds to finance the purchase of sites and the construction of buildings for lease to new or expanding industries. Spencer declined this generous offer in favor of financing its own facilities.

We invite your further investigation of Mississippi and its BAWI plan. Your request for information will be handled promptly and treated with confidence.

A DECADE OF PROGRESS IN MISSISSIPPI
BAWI
MISSISSIPPI
AGRICULTURAL AND INDUSTRIAL BOARD
State Office Building • Jackson, Mississippi



"I see you sell Quaker State. Better check my oil."

This young lady reflects the same confidence in Quaker State Motor Oil that millions of customers have had for more than half a century. Such faith is well-founded. Today's Quaker State Motor Oil is the finest ever. It deserves *your* confidence, too. Super-refined from costly 100% Pure Pennsylvania Grade Crude Oil, Quaker State is *the* quality motor oil.

When you use Quaker State, your car's engine gives smoothest performance—peak power year-round. Its vital moving parts are guarded by Miracle Film protection. Trust the oil that has earned the confidence of millions.

QUAKER STATE OIL REFINING CORPORATION, OIL CITY, PA.
Member Pennsylvania Grade Crude Oil Association

. . . Some industries will be hiring more

further, give officers more leeway, but in general labor investment policies are conservative.

Union leaders also say that they see little chance of grabbing control of a company through stock purchases, in order to win a labor contract. If a company is large, they say, the cost of buying stock control would be prohibitive. If it is a small company, the dues money obtained by taking over the company would be so small that it would not be worth the risk, union officials explain.

Most labor leaders are opposed to having unions invest their money in corporate shares. They say they don't want to be on both sides of the bargaining table. However, unions are showing more interest in corporate stocks and bonds than ever before. A new era of unions-in-business may be setting in.

Where Payrolls Will Get Bigger

A pickup in employment is expected this month, and next, in a half-dozen or so industries.

Gains in those industries may be offset in some areas by customary winter layoffs in nonmanufacturing fields, but this is what Government forecasters see ahead:

In autos, employment is due to rise somewhat more but not at the rapid pace of the last few weeks. Unemployment in Detroit has dropped more than 50 per cent since autumn, taking Detroit off the list of cities with a substantial surplus of labor. More auto jobs also helped to take Kenosha, Wis., off that list.

Steel areas, too, are to add more workers, partly due to continued auto demand for steel. Hiring is to increase in the Chicago area, with smaller gains in Pittsburgh, Youngstown and Canton, Ohio, and in Johnstown, Pa.

Aircraft plants expect to expand payrolls a bit in Los Angeles, Baltimore, Cincinnati, St. Louis, Seattle, Tulsa.

Farm-machinery plants have been adding workers in the area of Davenport, Ia., and Rock Island and Moline, Ill. As a result, that area no longer is listed as having a substantial surplus of labor. Plants in Joliet, Ill., making other types of machinery, expanded payrolls enough to remove that city from the substantial-surplus list.

Job gains also are seen for furniture, household machinery, service trades.

Fun With the Politicians—

FIRST "PRESIDENTIAL CANDIDATE" FOR THE NEXT ELECTION

The Alfalfa Club of Washington for 42 years has entertained its members and guests at an annual dinner, during which it becomes the "Alfalfa Party" and stages a mock political convention to nominate a "candidate" for President of the United States. The nomination is followed by an acceptance speech from the nominee, who spoofs the Administration, its "loyal opposition," and Washington affairs in general.

At the dinner, Jan. 22, 1955, Merle Thorpe, former editor of Nation's Business and now an executive of Cities Service Company, was placed in nomination by Senator Leverett Saltonstall of Massachusetts, who moved that nominations be immediately closed, no debate permitted and no point of order be entertained. The chair declared the motion carried. President Eisenhower was at the head table with members of the Cabinet. In the audience were many Senators and Representatives and members of the diplomatic corps.

To escort the nominee to the platform, a committee was named, composed of Secretary of State Dulles, Lieut. Gen. James H. Doolittle, Ambassador to the United Nations Lodge, Senator Byrd, former Justice of the Supreme Court Byrnes, Maj. Gen. Glen E. Edgerton, President of the Export-Import Bank, and John Lord O'Brian, former assistant to the Attorney General. In accepting the nomination, the "candidate" made the speech that is presented here.

Mr. Chairman of the Convention; the honorable delegate from our Gettysburg Experimental Farm; and his distinguished alternates from Upper and Lower California; illustrious unofficial observers from overseas; and delegates, unaccredited, uninstructed, and uninhibited:

I congratulate you upon your intelligent choice of a candidate—a candidate openly arrived at—in a smoke-filled room last night—and chosen, so Leonard Hall assures me, with a minimum of character assassination.

Your action takes me completely by surprise. In the few moments I have had no time to prepare a speech. Therefore, what I will say will be off the cuff and off the record—and I trust the reporters will follow the press release I gave them earlier this week.

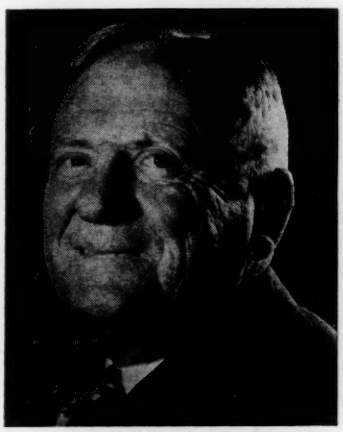
My acceptance speech tonight will be in a sober and serious vein, befitting these times of a happy if insecure peace, but later, after a session with my Hollywood gag writers, I shall entertain the eggheads of the country with nimble wit and sparkling wisecracks.

The vote of confidence fills me with humility. I am as 'umble as Uriah Heep—or Arthur Godfrey. But not so humble that I can't write a stiff letter to any dodgasted music critic who says my 3-year-old granddaughter cannot carry a tune.

Senator Saltonstall just now suggested that I be smart when I pick a home State and, he said, "the more the better." Well, I can claim seven. I, too, come from Kansas. There I learned that "if you can't lick 'em, jine 'em." I learned this political tactic from Sockless Jerry Simpson—and other Kansans. I attended Stanford University and then in Seattle wooed a girl whom I later married in Minnesota. That puts the Pacific Coast and the Northwest definitely in the bag. I once lived in Maryland, and now in Virginia, but earn my meager livelihood in the Great Empire State of New York.

That gives me seven home States—"three up," as of now, on a possible rival, or should I say, the available rival with his four home States of Texas, Kansas, New York and Pennsylvania.

As to hobbies, I shall claim not only fishing, painting and golf, but also baseball—at least, the opening game of the season.



MERLE THORPE

I just now asked Ambassador Lodge what he thought of our chances. He said, "Well, to tell you the truth—" I interrupted him! No politician, in or out of office, wants you to tell him the truth. He wants something to make him feel good, and that is what he usually gets—from his Palace Guard.

I see we have a distinguished observer here tonight—Mr. George Gallup. If he is here to get the Alfalfa Party as a client, it is only fair to tell him he is wasting his time. We shall not need him. We have our own George who can give us information as to the day-to-day swing of political sentiment. We have only to observe which way our George is facing at any particular moment—George E. Allen, that is.

I accept this high honor at great personal sacrifice. But when the country calls, a Cincinnatus must leave his plow in the furrow, set up campaign headquarters,

engage a Jackie Gleason as a television tutor, and start in to make friends and influence people.

I accept the nomination on one condition—that you do not ask me to take a second term, unless, unless circumstances change, or there is a cry for help from my friends in the Senate and House who are up for re-election.

Your enthusiasm thrills me. You have reason to rejoice tonight, because for the first time you have chosen a candidate who can win. For 42 years, 42 long, long years, you have left this convention hall filled with high hopes and domestic grape juice, only to meet with defeat, humiliating and ignominious.

We have met with defeat because our candidates have been inconsistent.

For example, the brilliant General Edgerton held great promise as a standard-bearer. He mounted his white charger and like a plumed knight poised his bright lance against the Washington mess. His first move was to solicit and obtain the job of cleaning up the White House. He left more than he found of the mess he promised to clean up. He added a dining hall for the junior executives, and with the brass which characterizes the brass, he placed a sign over the door which is there for all to see. It reads: White House Mess.

O, what faith and hope we pinned on the senatorial toga and Supreme Court robes of our candidate, Jimmy Byrnes. He promised to deliver the South to the Alfalfa Party, but all he did was to submit evidence that South Carolinians could read—and—write—right!!

John Lord O'Brian campaigned on a platform of purging the school textbooks of communistic propaganda. The result? Up until he took over, we had simple examples in our arithmetic books, such as, "If you had 8 cents and your auntie gave you 3 cents, how many cents would you have?" Today, the problem reads, "If you have $2,000 and the Government takes away $1,000, how much will you have left—and for how long?"

Let's face it! Our party is split, wide open, between the radicals and conservatives.

Our radical candidates promised a world without risks, without death or taxes. They denounced fire, flood and hurricane, drought and disease, with emphasis upon cigarette cancer and the common cold. They promised to abolish all debts and give everyone a nest egg of $5,000. "Every man a King" was their ringing slogan.

What did such a liberal platform get us? Not even a place on the printed ballot! Our party was caught in the middle. The New Dealers appropriated our platform with their Happy Days Are Here Again, and the Republicans promised to do it bigger and better—and for less money.

Our conservative, Senator Byrd, chose for his battle cry, a balanced budget. He couldn't even get a running mate from his own Alfalfa Club. No member would support his old-fashioned copybook maxims—that 2 plus 2 equals 4, that water wets and fire burns, and that what goes up must come down; that the Federal Government, strong and powerful as it is, can't give you a single thin dime without taking 20 cents away from some other citizen—the additional 10 cents for a service or cover charge.

Senator Byrd appealed to the hard-boiled businessmen for support. Big Business replied: "Of course, we are for economy in Government—*but* not when it affects my Government contracts."

"We are for fair trade practices, for federal regulation—*but* only for my ruthless competitors."

"We are for lower tariffs—*but* not where my products are involved."

Even the precinct workers of the Alfalfa Party ridiculed our candidate's fear that we would spend and spend and spend ourselves into national bankruptcy.

As the revolutionaries carted him to his defeat we sat in the sidewalk cafes, knitting, along with Madame Defarge, indifferent to his warning, "Don't spend it until you've got it!" We joined in the raucous laughter as the mob liquidated him and his platform with the single retort,

"You never had it so good, did'ja!"

So, my friends, the manifest destiny of Alfalfa is to bring about a peaceful coexistence, a nonpartisan cooperation of members of our own party. We must do better than "me-too-ism." We must discover an issue which will delude the greatest number of citizens of this glorious, unwashed democracy.

The candidate you have drafted tonight, talented and resourceful, albeit humble, has such an issue, an issue which will be obvious to all as I point out the primary cause of our past defeats.

Each year we have approached the toilers of this land with a promise of full employment. Charles Porterfield Light, our beloved first candidate, ran on a platform of "The Full Dinner Pail." That meant only more toil and more sweat for the masses. Another Alfalfa candidate promised "Two Chickens in Every Pot"; that meant only more toil for the poultry raisers.

One year, we campaigned on the issue of a "more strenuous life." Theodore the First took exclusive possession of it without giving us any credit. Perhaps it was just as well. The "strenuous life" called for a national antidote, all kinds of antibiotics. We were forced to vaccinate ourselves against such a life by a cradle-to-the-grave security for everyone, here and abroad—and the end is not yet.

Others advocated a living wage, and a cultural wage, both of which, like all of our issues, carried the implication of wage slaves and burden of more labor.

Any schoolboy could have shown us the fallacy of this approach. Ever since the Good Lord threw Adam out of the Garden and told him to go get himself a job, and put him on his own, the deepest desire of man and woman has been to *get out* of work!

The hour has arrived, 10:35 Eastern Standard Time. Your candidate will now disclose his platform, the pronouncement for which mankind has been waiting, lo, these 2,000 years. It is:

Full *Un*employment with a Guaranteed Annual and Adequate Wage!

Oh, my friends, I can already hear grumblings from the extreme right and the extreme left. The leftists will tell you that we are already on the march to that goal, and that an impulsive "do it now, and get it over with" policy will be opposed by their eager beavers who want to keep on working—working to make America over.

From the right of the aisle, Old Guard fossils, living in another day, captains of privilege, malefactors of great wealth, I can hear delegates mutter in their beards,

"Where will we get food and clothes and shelter—and a television set—if nobody works?"

"Well," to quote an eminent authority, "maybe the best answer to that might be my saying that is a good question."

But I think the answer is clear. The nations of the world, grateful to us for help in their distress, will bring us a Point Four program. In their effort to do good, they will not stop to realize that under our Full Unemployment Administration, Point Four aid will be about as useful to us as—as—it has been to them. If they then fail to send us the necessary tonnage of food, etceteras, we have a sure-fire remedy: we can scare hell out of them by threatening to go Communist!

This answer should appeal to the extreme right. As for the masses, the proletariat, we have an answer more in the American Political Tradition. When they ask us where the

food and drink is coming from with nobody working, we can say,

"That, sir, is a detail to be taken up after the election."

On this platform we can sweep the country. The only danger is that other backward nations may preempt this forward-looking policy. We can, of course, keep them from getting any news of it by broadcasting it over the Voice of America.

To those doubtful ones among us, to the defeatists, who fear only fear itself, we shall bring courage. We shall remind them that the humblest citizen in all the land, when clad in the armor of a righteous cause, is stronger than all the hosts of error. Our cause is as holy as the cause of liberty—the cause of humanity. It is a fifth freedom to end all phony freedoms, the freedom to enjoy freedom from labor and without the laborious pursuit of happiness, as prescribed by the Declaration of Independence.

So much for our domestic policy. As to foreign affairs, we pledge ourselves to oppose violently the foreign policy of the present Administration—no matter what it happens to be at the moment.

The Alfalfa Party has too long been looked upon as the comic supplement, the funny page of our political life. We have petitioned, and our petitions have been scorned. We have entreated, and our entreaties have been disregarded. We have begged, and they have mocked us. We beg no longer; we entreat no more; we petition no more. We defy them! If the radicals or conservatives dare to come in the open field against our radical conservatism, we shall fight them to the uttermost.

We shall fight them on the beaches. We shall fight them on the landing fields. We shall fight them on the prairies. We shall fight them in Texas and New Jersey.

In other words, we stand at Armageddon and we battle for the Lord!

Comrades, I can promise you only blood, sweat and tears until victory perches on our glorious banner, our consecrated banner with its sprig of green Alfalfa rampant on a pinkish field of Scotch and soda.

To our pledge of full *un*employment, the common people—and the uncommon people—from portal to portal, from Portland to Portland, and from Saratoga to Tia Juana, by way of Hialeah—will respond to our battle cry:

"You shall no longer press down upon the brow of labor this crown of thorns; you shall not again crucify the American voter upon the cross of full employment."

Gentlemen of the Convention, the world will little note nor long remember what I say here tonight, but it can never forget what we do here. It is for us—the live ones—to be dedicated to the unfinished work of the Welfare State, through a reborn, militant Alfalfa Party—rechristened in this historic hour—the Immoderate Liberal Party.

O, Miserable Alfalfan Kulaks, O agrarian reformers of the Free World, throw off your chains!

Cry havoc, and let slip the dogs of war against all time-clocks, Taft-Hartleys, escalator clauses, and

Sound off! One, two, three, four—

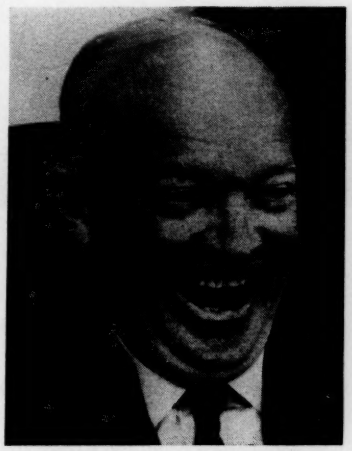
Onward, onward, on against the foe—

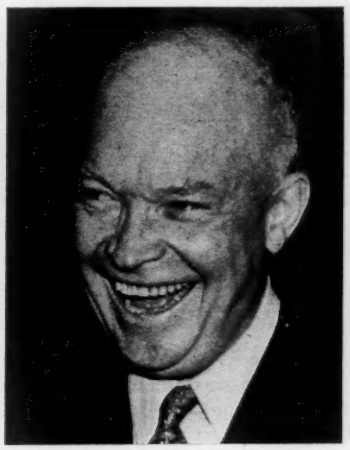
Forward, forward, Alfalfan banners go!

Follow your Peerless Leader, your Peter the Hermit, your Richard the Lion-Heart, and

March on, march on, in the Great Crusade—for Humanity, for the Fatherland, for Motherhood—and the Alfalfa Club.

Postscript





President Eisenhower Replies to "Candidate" Thorpe

After Merle Thorpe's speech, President Eisenhower made some comments in a jocular vein. He said he had been in office two years and two days and had never made a deal of any kind with anyone until this occasion. He felt that he ought to confess to the audience that before the dinner started Mr. Thorpe had approached him with the proposal that if he (Thorpe) withdrew from the presidential race, he would throw his entire support to Mr. Eisenhower, provided the latter would do the same in case he, the President, withdrew. So amid laughter Mr. Eisenhower revealed that he had shaken hands on that proposition in the presence of a witness—Chief Justice Warren, who was sitting at his side.

Only in free America could there be such an evening of jocularity with the highest officials of Government present.

How many of your company's products could you find on this modern streamliner?

Walk through a streamliner—from the club lounge to the engineer's cab—and you'd find hundreds of products produced by this country's leading industries. No doubt you'd find several things your company makes or had a hand in making.

Among these products, too, you'd find a surprising number of wood fiber products of Kimberly-Clark.

In this compartment alone, the padding in the Samsonite luggage, the papers on which the travel folders and parts of *Esquire* magazine were printed, and the paper wrapper on the bar of Camay Soap, are all wood fiber products of Kimberly-Clark.

When the corsage was delivered it came wrapped in Kimpak, the Kimberly-Clark packaging material that absorbs and holds moisture. And even in this streamliner's diesel engines, the core material in the oil filters was made in the mills of Kimberly-Clark.

Hundreds of products made from wood fiber exist today to make American business more profitable—to make the everyday lives of Americans more comfortable. Many more wood fiber products are now being developed. And, in the future, still others will come from the minds of the men at Kimberly-Clark.

Kimberly-Clark

KIMBERLY-CLARK CORPORATION
NEENAH, WISCONSIN

News YOU Can Use ®

IN YOUR PERSONAL PLANNING

24th and N Streets, N.W.
Washington, D. C.

The Internal Revenue Service comes up with a ruling that governs whether you can claim a tax deduction for your wife's travel expenses when you take her along with you on a business trip. Here are the details:

TRAVEL DEDUCTIONS. The law allows a taxpayer to claim an income tax deduction for travel expenses of a business trip away from home, or of going to a convention or professional meeting. But those expenses have to be reasonable and necessary to carrying on your business or profession. Now the Internal Revenue Service says the same rule applies to a wife's expenses.

This means that, to be deductible, her transportation, meals, lodging and other expenses must be bona fide business costs--directly attributable to, and a necessary part of your business. Having her type up a few letters for you, or answer the phone, wouldn't make her expenses qualify for a deduction.

WIFE'S EXPENSES. Each situation would have to be decided on its own merits. You get an idea, though, of what goes and what doesn't from some actual cases cited by the federal tax collector. In one, expenses that included stops at resorts were not allowed even though the wife, as part proprietor of the business, signed business checks and helped entertain customers. In another, the expenses of a singer's wife were allowed because, on the trip, she helped him plan programs, handled publicity and served as his secretary and typist.

GIFTS AND GAINS. This to clear up a point that seems to bother a lot of readers. When you make a gift of property, the value of which has increased over what you paid for it, the gift tax you are subject to ordinarily is figured on the property's worth at the time of the gift. Should the person to whom you give the property then sell, he is liable to income tax on any gain. That is figured on the increase in value over your original cost--not the market value at the time of the gift. Thus the increase may be taxed twice. The courts, though, have said this is not unjust. One is a tax on your right to transfer property. The other is a tax on a capital gain.

AUTO HEADLIGHTS. For better seeing in nighttime driving, keep your car headlights clean, the Automobile Manufacturers Association advises. Dust and dirt that can accumulate in half an evening's driving may easily reduce illumination 50 per cent, the Association says. Other tips it offers: Use the lower

(over)

beam for best seeing in fog, snow, rain and dust. Dim lights when the approaching vehicle is about 1,000 to 1,500 feet away.

INFORMATION RETURNS. In case it has slipped your notice, the new tax law relieves most individuals of the chore of filing information returns. You no longer have to report to the federal tax collector the names of, say, a landlord or maid or doctor to whom you paid more than $600 in the year. Now, only those who made payments to others in the course of a profession or business have to file information returns. For them, the due date is February 28.

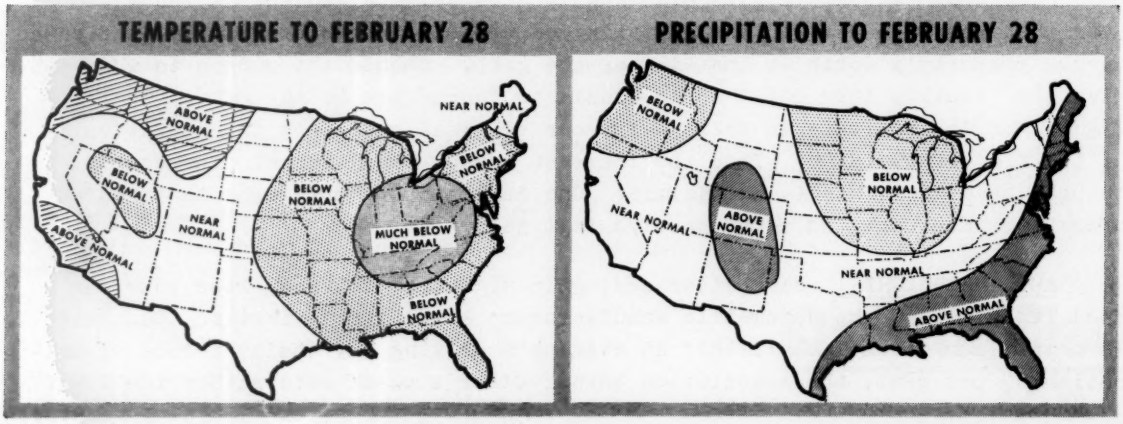
OLD-AGE PENSIONS. Into every rural mailbox this month will go a leaflet telling how the new Social Security law applies to farm owners and farm employes. That's the plan of the Internal Revenue Service. If there's a slip-up, and one isn't delivered to you, you can get a copy by writing your district director of Internal Revenue. Ask for "Social Security for Farm Families."

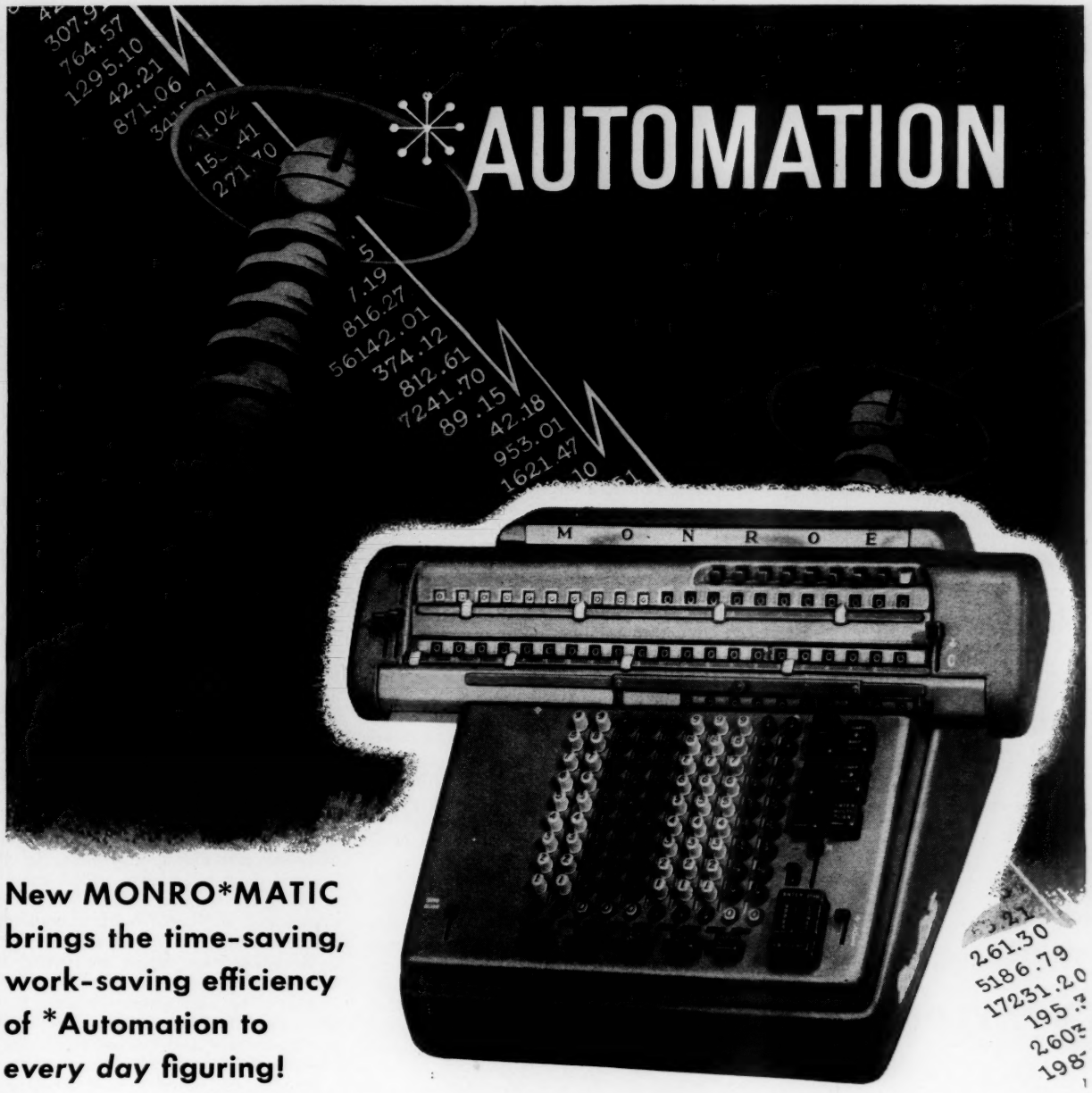
PLENTIFUL SEAFOOD. Expect good "buys" in a number of fishery products this month, the U.S. Fish and Wildlife Service reports. Supplies of frozen haddock fillets are a whopping 75 per cent greater than last year. Also plentiful: fresh and frozen shrimp, frozen halibut, canned tuna.

HEATING HOMES. How much does turning down the thermostat at night save on heating bills? Says a University of Illinois study: Compared with keeping the house at 72 degrees night and day, setting back the thermostat 5 to 10 degrees at night cuts fuel costs about 5 per cent. But sleeping with bedroom windows open--unless bedroom doors are weatherstripped--can wipe out the saving.

SURGERY. The risk you run from major surgery today--even the most hazardous operations--has been cut by at least a half in just the last 10 years. For some operations, the risk is only one fifth as great. So reports a major life insurance company from a study of hospital records. It gives credit for the improvement to better surgical and anesthetic techniques, new infection-controlling drugs, blood transfusions, and getting patients out of bed earlier.

WEATHER. The weatherman, if not the ground hog, says wet, cold weather--with snow--is headed for East Coast States. Here's the outlook:





New MONRO*MATIC brings the time-saving, work-saving efficiency of *Automation to *every day* figuring!

Monroe, the most automatic of all calculators, brings you Automation, today's labor-saving industrial miracle.

Take the new Monro*Matic 8N, for instance, introduced just a few months ago. Business men were quick to recognize the 8N as the one calculator that reduces work-a-day figuring to feeding numbers, pushing buttons.

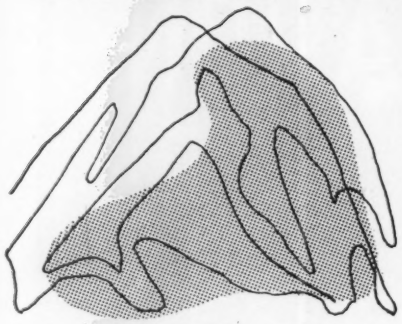
On zeros and decimals alone, because they are fully automatic, the 8N is way ahead. Work flows faster and chance of human error is eliminated. Multiplication and division, in fact every type of figuring problem is easier, faster on the Monroe 8N. From routine arithmetic to payroll and invoice work, to the most intricate statistical calculations, it eases through them all! And, after each problem, the 8N automatically readies the carriage for the next.

The *Man from Monroe*, listed in your classified telephone book, has the whole story. He'll show you why Monroes, the only calculators with Automation, breeze through your toughest figuring work. And the trial is on us! Monroe Calculating Machine Company, Inc., Orange, New Jersey. Branches Everywhere.

OPERATORS WHO KNOW... PREFER **MONROE** *CALCULATING, ADDING, ACCOUNTING MACHINES*

LOOK

TO YOUR BULK-HANDLING COSTS



"PAYLOADER" tractor-shovels have eliminated awkward, expensive loose-materials handling operations at thousands of plants — and they can do the same for you. They handle from ½ to 3 tons at a time — scoop up, carry, dump, load, spread — indoors or outdoors. Seven sizes to meet your needs. The Frank G. Hough Co., 953 Sunnyside Ave., Libertyville, Ill.

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—210th—

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A regular quarterly dividend of seventy-five cents (75¢) per share on the Capital Stock of the Company has been declared this day, payable on March 10, 1955, to stockholders of record at the close of business on February 4, 1955.

The stock transfer books will remain open.

S. T. CROSSLAND
January 28, 1955 *Vice President & Treasurer*

LIFE AROUND THE WORLD®

memo

FROM FORMOSA

THE JETS ARE READY

A U. S. AIR BASE, Formosa—America's airborne, global fire department is here and ready for action—getting its first test in the Formosa crisis.

Three U. S. Air Force fighter squadrons, with less than 12 hours' notice, rushed to this strategic island from their home bases elsewhere in the Pacific—and within minutes of touching ground they were ready to go to war. They are at combat readiness now to defend Formosa against the Communists.

The fly-in of air power demonstrated that the U. S. has a combat contingent capable of moving thousands of miles on short notice to deal with sudden brush fires that threaten the peace around the world. The 44th Fighter-Bomber Squadron is typical of this new, mobile air force.

The 44th normally is based at Clark Air Force Base, near Manila, in the Philippines. At half past 8 o'clock one recent evening, the squadron was ordered to Formosa on an emergency basis. By 8 the next morning, most of the 25 F-86 jet fighters—Sabres similar to those that fought in the Korean war—were in the air and on their way to this Nationalist stronghold.

Before the day was over, they reached Formosa, refueled and took off on their first sorties. By nightfall a batch of mammoth transports had arrived from Clark AFB with maintenance equipment, replacement parts and personal gear.

Workshops, briefing tents and crew headquarters were quickly put in place. Twelve hours after its planes left the Philippines, the 44th was all set up and ready for business—hundreds of miles from home base.

The crews who man these mobile fighter units represent a new breed of professional fighting men. Several pilots in the 44th Squadron are World War II aces, the "old men" of the outfit. Most of the fliers are in their early 20s, but even among these are seven or eight with more than a thousand hours of jet flying time to their credit.

"Don't get killed, Dad." Of the 235 officers and airmen in the 44th, nearly 100 are married. The families they left behind at Clark AFB are accustomed to seeing these "pros" dash off to distant parts at a moment's notice. Before leaving Clark the other morning one pilot awakened his 9-year-old son to say good-by. "Don't get yourself killed out there, Dad," was the drowsy youngster's only comment.

Life at this base has already fallen into routine for the men of the 44th. A tent city has been erected. Gravel walks have been laid over ankle-deep mud. Doctors have surveyed the nearby towns and posted a list of on-limits and off-limits restaurants and bars. In the briefing room a 24-hour bridge game is in progress—resumed from where it was interrupted at Manila—with players clad in combat attire. Some of the crews are on 3-minute alert, others on 10 and 15-minute call.

About the only source of news is radio, and the squadron's men crowd around to hear and discuss newscasts of the British Broadcasting Corporation.

Impatience, boredom and a sense of

—United Press

THE 44TH FIGHTER SQUADRON
"They can't stand up to us"

isolation are beginning to set in, however. These fliers feel cut off. They don't know what the fuss is all about and every piece of gossip is chewed over constantly. Here are remarks from a typical bull session:

A young jet pilot—"Look at the map. This seems like a hell of a thing to start a war over."

A World War II veteran—"I don't think the Commies will fight over this Tachen business. They can't stand up to us in the air."

An older man, a major—"Let's get this show on the road. Let's fight or go home."

At two other Formosan airfields, much the same things are happening and the same things are being said by the pilots of the other two mobile fighter squadrons, which raced here from Okinawa.

Some difficulties cropped up early. For instance, revetments were not available at first to protect American jets against surprise attack. Nor were there complete radar and air-warning systems to alert the Americans against the approach of Communist planes. Also, there was the matter of getting the Chinese Nationalists geared to the pace demanded by these fighter squadrons.

A system changes. When the 44th arrived, its armament officer made it his first duty to check into the supply of ammunition available for his fighters. He discovered plenty of ammunition and napalm on the ground, but Chinese officers said it would take a full day to get napalm uncrated and available for use, even in an emergency.

The American explained that when U. S. planes go to war they can't afford to spend a day waiting around for bombs. In an emergency such as this, he said, bombs must be available on 15 minutes' notice. Then he got together with the Chinese officers, showed them how to overhaul their stockpiles and reorganize their ammunition supply dumps. The job was quickly done.

Now napalm for the 44th is available on 15 minutes' notice.

FLIERS ARE ON THE ALERT
"Let's fight or go home"

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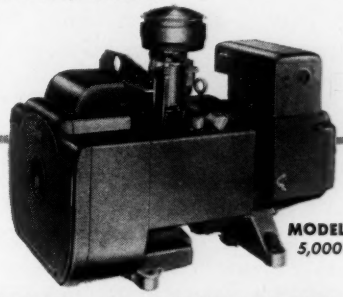

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LEHMAN BROTHERS

February 2, 1955.

WHAT GENERAL MOTORS' BIG STOCK ISSUE MEANS

Stock issues, as a source of new capital, may be coming back into their own after 25 years.

General Motors, with ambitious expansion plans, is taking the lead with a record issue.

There's evidence, too, that other firms are tending to veer in the same direction.

Switch from borrowing to "equity capital," if it really comes, will have important results.

NEW YORK

Few events in a generation have so caught the interest of the investment world as the decision of General Motors to raise 350 million dollars through the sale of common stock.

It isn't simply that this is by far the biggest stock issue ever put on the market by an industrial firm, or that other big companies are reported to be studying similar moves. It's the whole setting of the history-making move—as well as the details and what they mean—that stirs Wall Street. If the financiers are right, it means that:

GM, giant among industrial giants, is betting on continued long-term growth of the country, the auto industry and the company.

The time may be ripe for industry to do what its leaders and a Republican Administration have been urging it to do for some time—to raise more of its growth funds by the sale of the ownership interest that goes with common stock, and less by borrowing.

Also, it may be time to pay out more of profits to stockholders in the form of dividends, rather than to keep so much of the stockholders' profits for expansion.

The setting, of course, is provided by the stock prices reported in today's bull market which, incidentally, has touched off a congressional investigation.

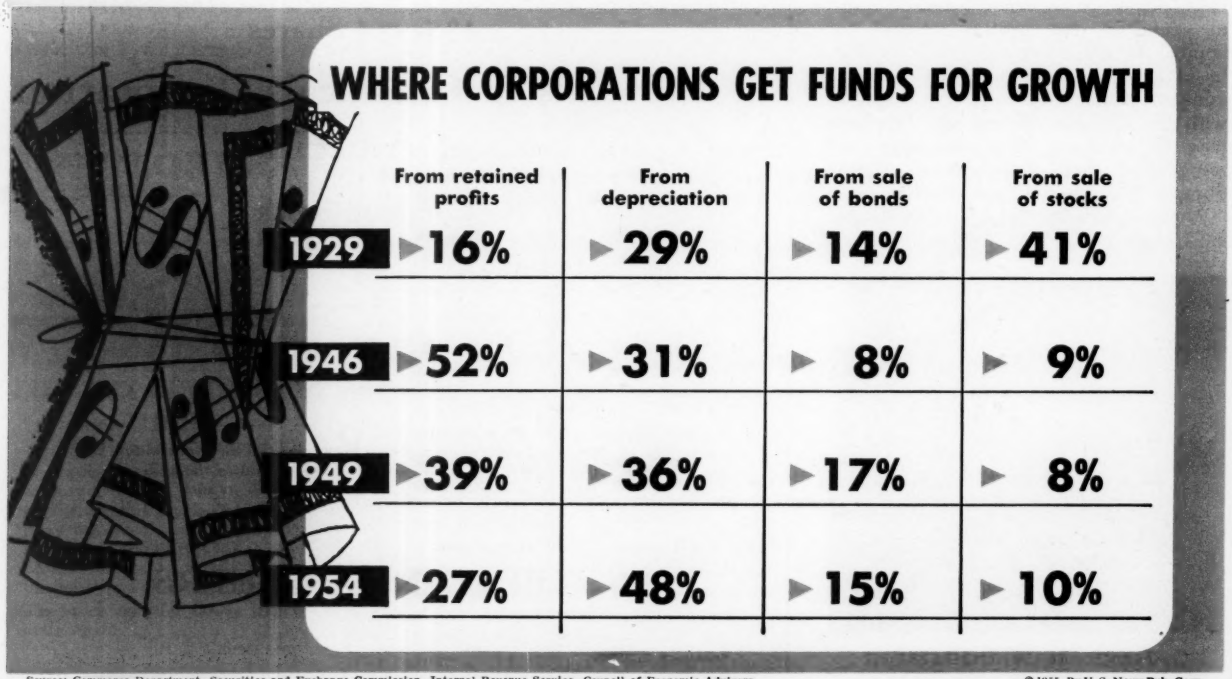
For months now, investment bankers who handle much of industry's security issues have been asking this question of their corporate clients: If you can't raise equity capital—that is, sell shares—when share prices are around the highest levels in history, when can you? Now, Wall Street notes, it has fallen to GM—whose annual sales exceed the national income of Norway and Sweden combined—to take the lead.

To understand the meaning of this big stock issue now being launched by a syndicate of bankers headed by Morgan Stanley & Company, you need to know something of the soul searching that must have gone on in GM's board room before the decision was reached.

Stocks vs. bonds. Big question that had to be faced was where to get the capital needed for expansion.

With more than 2.1 billions spent on new plant and equipment in six years, GM planned to spend an additional half billion in 1955 and an additional quarter billion in 1956. Profits retained for growth, plus funds from tax write-offs based on past investment, would provide only part of the funds. "Outside sources" would have to provide the rest. But should the company turn to lenders or to investors who wanted to buy shares in the corporation?

In theory, management could agree, a stock issue was called for if the new funds were to be needed permanently in the company. Looking over its situation, the management decided that the factors


WHERE CORPORATIONS GET FUNDS FOR GROWTH
From retained profits
From depreciation
From sale of bonds
From sale of stocks
1929 ▶16% ▶29% ▶14% ▶41%
1946 ▶52% ▶31% ▶ 8% ▶ 9%
1949 ▶39% ▶36% ▶17% ▶ 8%
1954 ▶27% ▶48% ▶15% ▶10%

Source: Commerce Department, Securities and Exchange Commission, Internal Revenue Service, Council of Economic Advisers

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"indicate an expanded market for motor vehicles due to increased national income, the growth of the population and the rapid increase in new households." More capital, then, was a permanent requirement.

Yet stocks were a far more expensive proposition than bonds.

GM, with relatively little debt, could borrow big amounts and still be conservatively financed. With a top credit rating, GM could sell bonds at an interest cost of, say, 3 per cent—putting it in round numbers. All the interest would be deductible in paying income taxes. With the federal tax rate at 52 per cent, GM's actual cost would come to roughly 1½ per cent per year.

Stocks offered a strikingly different picture. With its shares selling at around $100, GM could expect somewhat less than $100 a share after paying the relatively high expenses required for floating a stock issue. If the corporation continued to pay a $5 dividend, cost of the new capital would be at a rate of more than 5 per cent a year. And the cost would not be deductible for taxes.

Finally, investors in the new issue would be expecting dividends until long after a bond issue would be retired—in fact, more or less permanently.

"Why," the directors could ask, "should we sell stock?"

Who benefits. The answer, or part of it, was found in another big difference between stocks and bonds.

Interest payments of millions of dollars a year would go to institutions that invest in corporate bonds—life insurance firms, pension trusts and the like.

Dividends on stock, on the other hand, would go to the owners of the corporation—to 460,000 existing stockholders and to other investors who risked savings to buy shares.

Money paid for interest, GM's directors reminded themselves, goes largely to people outside the corporation.

Dividend payments go to the owners themselves.

This time, moreover, stockholders could hardly object to the corporation's taking in new shareholders. With stock prices high, the new "partners" would come in at a price that would not permanently dilute the existing partners' claims on the firm's property and earnings. Existing stockholders would be offered the right to buy the new stock first—one share for each 20 already held. They could exercise their rights, or sell them on the open market.

The decision went to stocks.

Now, these and related questions are being asked in corporation board rooms all over the country. And Wall Street has the idea that more and more firms will come up with the same answers as GM. Many, in fact, already are reported to be studying stock issues. More can be ex-

(Continued on page 116)

A big seller at Winter big games in MOA California

THE SAME mild, year 'round climate that works for the ice cream vendor at winter football classics in MOA (Metropolitan Oakland Area), works for the manufacturer who locates here.

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. . . Dividends may go up with new stock issues

pected to if the spread between stock and bond yields—indexes of what firms must pay for equity capital and borrowing—continues to narrow.

A new trend. A switch to stocks, if it really develops in a big way, can have highly significant results.

Industry, in the opinion of Government officials, will be putting itself on a sounder financial basis by reducing its debt in relation to its equity capital. In eight years of low interest rates and high taxes, all corporations together have borrowed nearly two thirds of their new, long-term capital obtained from "outside sources." There is concern that debts which seem easy to handle when times are good will become troublesome if times turn bad.

Dividend payments generally might well rise in years ahead if industry turns to equity financing. For years now, as the chart on page 114 shows, corporations have hung on to a large part of their profits and used the money for expansion. Now, if industry plans to issue much new stock, it may have to pay out more of profits to stockholders in order to make shares still more attractive.

Another result of the switch, if it comes, can be an increase in the supply of stock on the market. The supply of new stock offered for sale has been tending to decline for years. Big blocks of shares have been taken off the market by growing institutions that buy for long-term investments. Other blocks are held by investors who, after price rises, are reluctant to sell now and pay the capital-gains tax on their profits.

Still another result of a turn to stocks, it's being pointed out in Wall Street, will be to offer ownership of American industry to millions of additional individuals. In GM's case, for example, a great many of the firm's 460,000 present shareholders will be unwilling—or will lack the cash—to buy the new shares now offered to them. Their rights will be sold to others, some of them obviously new shareholders.

These are just a few of the big things that the financiers, and U. S. officials, are expecting if industry generally follows the GM lead.

No overnight reversal. If you'll check the chart again, you'll find that these expected results are not going to come all at once. Key to the picture is found in the figures on depreciation allowances—that is, the funds that corporations are allowed to lay aside tax-free in writing off past investments in new plant and equipment.

—USN&WR Photo

COMMON STOCKS
The forecast: more issues

Those allowances already are providing industry with 12.5 billions a year, about four times as much as in prewar years. And these amounts are rising very sharply as industry writes off the vast investments made since the war. Now, the rise is to be made even sharper by new tax rules that permit corporations to take much bigger depreciation deductions in the early years of the life of new investments.

As a result, industry's need for "outside funds" is going to be low in relation to the outlays on new plant and equipment. Security issues generally will be smaller, and less numerous, than otherwise would be the case.

Still, there's real evidence that more of those issues will be stocks, instead of bonds, and that the trend—if continued—will have significant results.

› More dollars. Money supply—measured by private bank deposits and currency—increased by 3.6 billion dollars in December to another new high, at 209.4 billion. The December, 1953, rise was 3.5 billion. Significantly, the hardest-working part of the money supply—demand deposits and currency—accounted for the entire rise in the last month of 1954. In December, 1953, savings deposits accounted for about 800 million dollars of the rise.

› More stock splits. Stockholders, if they approve their directors' plans, will get three shares for each one they hold now in Columbia Broadcasting System, Armstrong Cork Company and Corn Products Refining Company, and two for one in Armco Steel Corporation and Ohio Oil Company.

317 STOCKS that have never missed an annual dividend in 25 to 171 years

UNITED'S Annual Report covering stocks on leading Exchanges and Over-the-Counter that have paid dividends without a break for 25 to 171 years, is just off the press. This list of dependable dividend-payers includes 115 stocks that have paid regularly for more than 50 years; 15 for over 100 years, and one that has not missed an annual payment in 171 years.

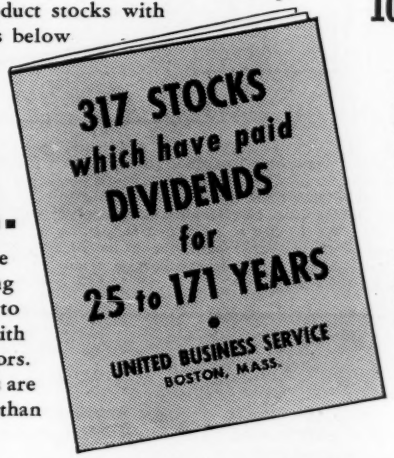
Liberal Yields Plus Capital Growth

Consider the added income you would realize by placing a part of your funds in some of these long-time dividend payers:

$5,000 deposited in a bank at 2½% yields.....$125
$5,000 in the best bonds at 3% produces.....$150
$5,000 in common stocks at 5½% gives you.....$275

There are many stocks in this study yielding 5% to 6%. Investors willing to take a "business man's risk" will find long-time dividend-payers that yield 7% to 8%. In addition, many of these quality stocks recorded substantial gains in 1954. A number of issues in this new Report are likely to prove market leaders this year.

From these 317 companies our Staff has made selections to meet any investment need. There are new-product stocks with large growth potentials; low-priced issues below 25; stocks in line for dividend increases this year; and other attractive selections as shown in the right-hand column.



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Located at Goldsboro, N. C., in the broad Coastal Plains area, this plant started production in April 1946. Here General Electric manufactures LAMP WIRE.

PLANT No. 2

At Asheboro, N. C., in the eastern part of the Piedmont area. Dedicated in June 1952, this modern, efficient plant produces the well-known GE AUTOMATIC ELECTRIC BLANKETS.

ANNOUNCED DEC. 1954

PLANT No. 3

Near Hendersonville, N. C., in the scenic Mountain area. This multi-million dollar plant, in a 200,000-square foot building on a 50-acre site, will be headquarters for the OUTDOOR LIGHTING DEPARTMENT, with its own research, engineering and sales activities as well as manufacturing, financial and general management. General Manager L. Byron Cherry says: "The Hendersonville site was selected after careful consideration of more than 200 other communities in 13 states." The climate, attitude of the people and quality of the potential workers were influential in the site selection.

ANNOUNCED JAN. 1955

PLANT No. 4

Between Hickory and Newton, N. C., in the western part of the Piedmont area. This is to be a $20,000,000 completely self-contained plant for the manufacture of POLE TYPE DISTRIBUTION TRANSFORMERS. An additional plant in the great GE system, it is not a transfer from any other area. In his announcement, General Manager Raymond W. Smith said: "We decided to locate here in another of our company's expansion moves because this section came closer to meeting our requirements than any others we saw. We feel the Southeast section of our nation offers the greatest opportunities for the future."

Actual experience is the best test of any area's advantages for plant locations and expansions. General Electric's selection of *additional* sites in North Carolina is a procedure shared by other companies, large and small, in a variety of industries.

Western Electric has four plants here and is still expanding. American Enka expanded in North Carolina when it added a nylon plant to its huge rayon establishment. Talon, Inc., whose first plant in this state began operating in August, 1953, added another—three times as large—just a year later. In 1954 Cornell-Dubilier added a 275,000-square foot plant, at a different location, to one in operation since 1951.

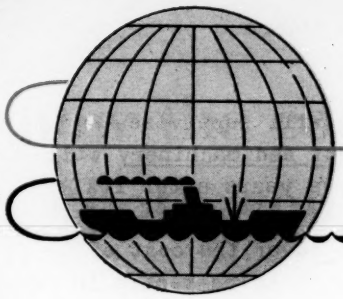
The roster of companies that have selected North Carolina for second and multiple plants is eloquent testimony of satisfaction to a high degree.

Why have these industries chosen North Carolina, the South's leading industrial state? The answers are as varied as the sites themselves. Heading the list is abundant labor with a proven record of productivity. Accessibility to major markets, excellent transportation facilities, and year-round mild climate are other determining factors.

In its 500-plus miles between the coast and the mountains, mid-South North Carolina continues to offer unlimited opportunities for industry.

Many sites, some with buildings, have been analyzed and are described in available briefs, along with pertinent information about the state as a whole. For a copy of the North Carolina industrial brochure, just write, wire or phone Ben E. Douglas, Director, Department of Conservation and Development, Raleigh 9, N. C.

Friendly North Carolina Where Industry Prospers



Business Around the World

LONDON • BONN • NEW DELHI • JOHANNESBURG

>> The Russians are beginning to flash their gold again.....

Russian gold once more is reported being sold on the London market. It's months since that last happened.

Russians also just loaned Finland 10 million dollars that can be drawn in gold or any currency the Finns may choose. This is a way of unfreezing the big ruble credits Finland has been piling up in Moscow. Nobody wants rubles.

Eleven tons of gold have been promised by the Russians to Iran. This is part of the settlement of Iran's war-debt claims against Russia. Gold is highly prized in the Middle East, as the Russians well know.

Gold has many uses. The Russians aren't shy about exploring its possibilities. Obviously, their heavy gold sales in Western Europe last year didn't put any permanent dent in the Kremlin's hoard--which must be sizable.

Russian production of gold runs to more than 300 million dollars a year.

>> Odds are, more Russian gold will be turning up in Western Europe.....

To pay bills in the free world, Russia needs to pick up some U.S. dollars, British pounds, Deutschemarks and other currencies. East-West trade continues to run against Soviet Europe, draining that area of Western currencies.

Now that the spotlight in Russia is shifting back to heavy industry and away from consumer goods, Russian buying in the West may increase.

It's clear at the moment that the Russians are very anxious to pick up a fast buck. In spite of the stress they are again laying on heavy industry and armaments, they are now selling steel in Western Europe. Steel is getting short there, sales are easy to make, and prices are firming.

Incidentally, some West Europeans point out that a country selling steel doesn't sound like one that's expecting war soon. Of course, the Russians produce 45 million tons of steel a year. Very little moves to the West.

>> The Russians are also finding that steel is the path to the Indian Government's heart. India, needing much steel, has little. Production runs around 1.7 million tons a year. India has plenty of iron ore, coal, manganese and other materials needed. India also has plenty of big ideas.

The Germans moved in first on this likely setup. Result: Krupp and another German firm are building a million-ton steel mill right now in India.

Then, last year, the British and the Russians started a sort of race to see who would put up more steel capacity for the Indians. The British made the mistake of trying to work it out with private capital and Indian steel magnates.

The Russians dealt from the start with the Indian Government. Too late, the British realized that Nehru favors nationalized heavy industry. The British

(over)

have recently switched to a negotiation on that basis.

Last week, Russia won the race. Russian technicians will supervise the construction of a million-ton plant. Russian equipment and machinery will be used. Russian experts will help run the plant for three years after its completion, expected by the end of 1959.

Russia will lend India nearly 100 million dollars to cover the cost of equipment, technical advice, etc. Loan, at 2.5 per cent, is to be repaid in 12 years in rupees of present value or in British pounds. In other words, the Russians are guaranteed against devaluation of the rupee.

>> Moscow is proud of this deal. It's useful propaganda in an important country. It's an answer to large-scale U.S. aid to India. It puts Russian technicians in key positions. It's the first big success in Russia's program of technical assistance. And, for Moscow, it's a good financial arrangement.

The British may still be able to help in further expansion of Indian steel production later on. But the Russians have caught the headlines.

>> Meanwhile, in Washington, the Foreign Operations Administration is getting on with its 39-million-dollar program for re-equipping the Indian railroads with 100 new steam locomotives and 8,700 freight cars. The locomotive business was allocated between American, British and Japanese manufacturers last autumn. Now Washington agencies are dividing up the freight-car business.

Two American companies are to build 1,650 freight cars apiece. Their bids were considerably above those of foreign manufacturers. But the companies are part of a "depressed industry" and got the business on that basis.

The 5,400 additional cars will be built abroad. A British firm is to make 1,500 freight-car bodies. Other contracts have not yet been awarded.

>> In South Africa, the railway system is in urgent need of much new equipment.

Rail bottlenecks are very severe, getting worse all the time. The nationalized railways are very profitable and are in a buying mood.

German and British makers of rail equipment have snagged some of the business. French rolling-stock manufacturers are in South Africa looking over the situation. American firms don't seem to be in evidence.

Road haulage by heavy trucks in South Africa has increased greatly due to rail troubles. But the roads there were not built for such heavy loads and are in a bad state of repair. So, road-building equipment also is needed.

South African curbs on U.S. imports--especially heavy goods--are being loosened up, as the South Africans' foreign-exchange position improves.

>> While gold and dollar holdings of the rest of the free world are trending upward strongly, Britain and the sterling area seem to be lagging.

Questions are raised by the 1-million-dollar increase in London's gold and dollar reserves during January--ordinarily a good month. Net decline in these reserves between June 30, 1954, and Jan. 31, 1955, was a quarter of a billion dollars. Large repayments on loans were made, but these results show that the sterling area isn't holding its own, considering its normal obligations.

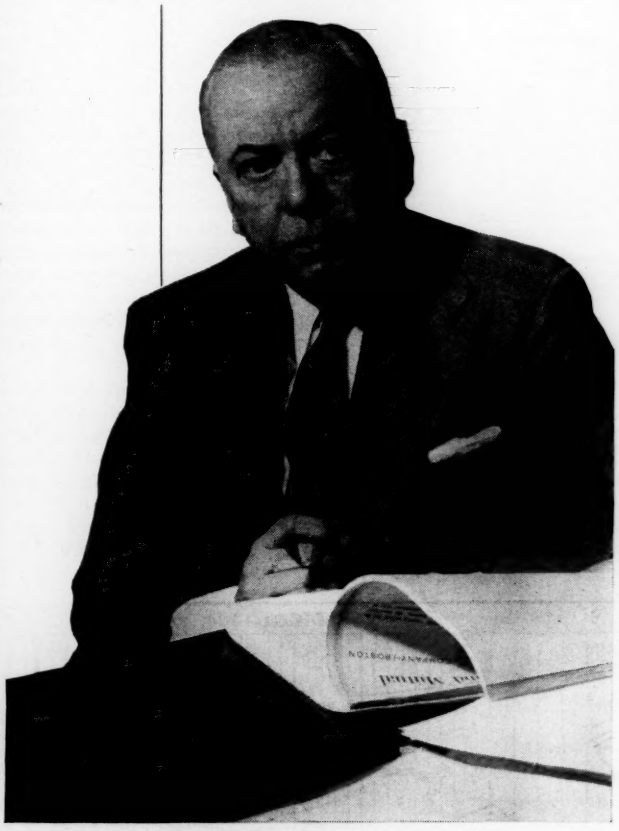
The British pound has been persistently weak since last summer.

Offical explanation for the weakness is "seasonal influences." To which the wags in London reply: "It's an unusually long season."

A New England Mutual Agent answers some questions about

how the corporate dollar can benefit both your company and your key men

THE BUSINESSMAN'S POINT OF VIEW is keenly understood by Kenneth R. Mackenzie, C.L.U. — New England Mutual agent from Boston, Mass. For like so many of the Company's specialists in business life insurance, Mr. Mackenzie has had extensive experience in the business world. He was a sales manager for over 13 years before joining New England Mutual. Men with this understanding represent New England Mutual all over the country. Let one of them help with the problems in *your* business.



What are these two-way benefits?

"Our deferred compensation plan will both protect the Company against financial loss if a key executive dies, and make it more attractive for him to stay with the Company throughout his career. Whatever happens, the tax treatment of the dollars involved will be favorable for both the key man and the corporation."

What other advantages are there for the corporation?

"In case of the employee's death before retirement, most of the proceeds are credited to the corporation's surplus. These proceeds are tax free. In case of resignation, the cash value of the insurance is also credited to surplus. And the plan allows the corporation to answer the requirements of each executive individually."

How does the key man benefit?

"He'll get more out of the deferred than the current compensation, because presumably he'll be in a lower tax bracket when he retires. Then he knows the plan will provide an additional source of income for his wife if he dies before retirement or within ten years after retirement. And he enjoys the added satisfaction and incentive of working under a plan which has been specially designed for him to improve his financial prospects for the future."

How do I know how your plan would work out for us?

"The best thing to do is have a New England Mutual specialist in business insurance adapt the plan to your needs. There's no obligation, and, with the cooperation of your attorney, he'll show you just how it will work out for both the company and the key man. Or you can send for more information by mail. Check your preference on the coupon below."

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PLUS & MINUS
Latest Indicators of Business Activity

Force of the business recovery is still strong. Gains in factory output, construction and retail trade are all contributing to the rise.

Steel mills scheduled output at 85.4 per cent of capacity in the week ended February 5 for a tonnage not equaled since November, 1953.

Output of paperboard, used mainly in the manufacture of containers for the shipment of soft goods, climbed to 257,900 tons in the week ended January 29, up 7 per cent from a year ago.

Electric-power output, reflecting large gains in industrial activity, exceeded 10 billion kilowatt hours, 13 per cent above a year ago.

Television producers turned out 473,000 sets in the first three weeks of January, more than half again as many as in the same period of 1954.

Household-appliance shipments by manufacturers are running strongly. In December, refrigerator shipments were 16 per cent above a year earlier, clothes driers were up 77.

Construction set a new record rate in January at nearly 40 billion dollars per year. Contract awards were heavy.

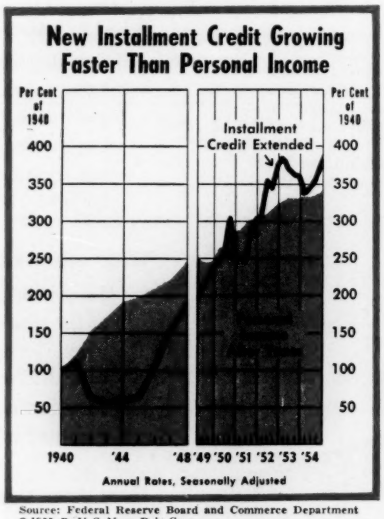
Auto production edged up to 161,481 cars in last week of January, indicating a total of about 659,000 for the month. That is 3 per cent above December, 44 per cent above January, 1954.

Auto sales dipped in January, apparently to about a half million. In December, sales had reached 573,000, highest in more than four years. Despite the January drop, sales remained well above a year earlier.

Dealer stocks of new autos, still below normal in relation to sales, are growing at a rate that gives concern to Government officials. By the end of March, stocks may well be at about 600,000—ample, even if sales are heavy in the spring selling season.

Pressure to overproduce later on may be strong. Dealers and manufacturers alike fear the effects of a strike on their business. Dealers remember they had almost no cars to sell for a while after the steel strike in 1952. Each major producer fears it may be shut down, that competitors would go on turning out cars, and that it would thus lose sales to competitors, unless dealers are well stocked in advance.

Personal incomes, rising steadily, are putting consumers in a confident mood for spending. Jobs have risen sharply, corporations are paying fatter dividends.



Source: Federal Reserve Board and Commerce Department
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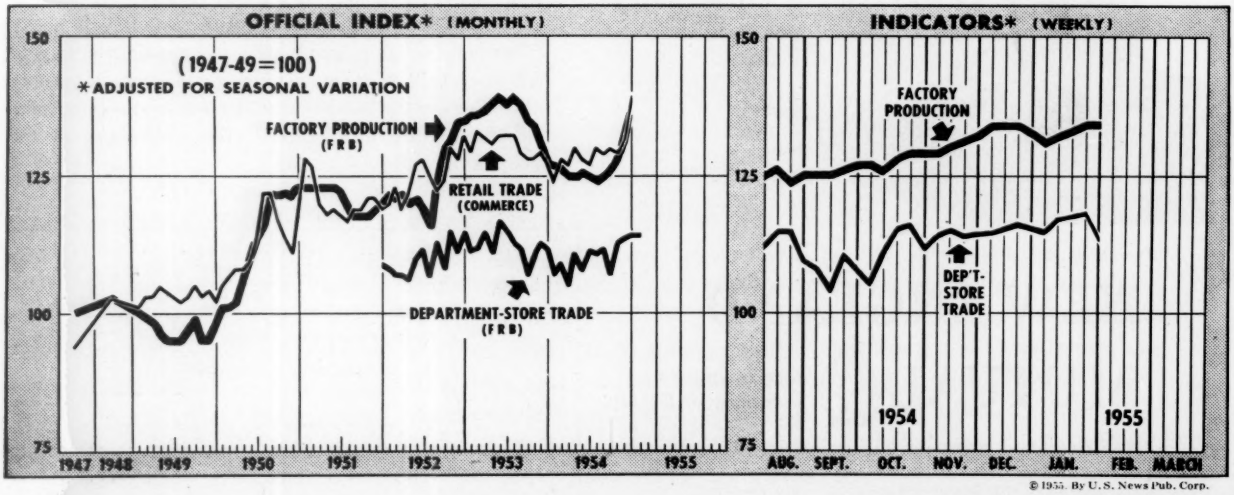
Installment credit is playing a large part in lifting consumer demand for autos, appliances, furniture, TV sets. New installment credit, as the top chart shows, was extended at a rate of 31 billion dollars per year in the fourth quarter, highest rate since the first quarfer of 1953. New auto credit was at a record rate of 15.4 billion per year in December, 23 per cent above December, 1953. Credit on other consumer goods was up 7 per cent.

Dependence of the economy on more liberal credit terms seems to have grown.

Average size of new-car installment loans made by sales-finance companies rose to $2,064 in December, nearly $200 above December, 1953, almost $600 more than in December, 1951. Required down payments have been reduced. A trend toward luxury models with expensive equipment has lifted the price paid for autos.

Speed of the rise in installment loans, as the chart shows, has been greater than that of personal incomes in recent years. In 1954, consumers used nearly 40 per cent more new installment credit than in 1950, yet sales of consumer hard goods were 5 per cent below 1950.

Restraints on expansion of bank credit now being applied by the Federal Reserve Banks can reduce the supply of money for installment and mortgage loans and bring a stiffening of terms. At this time, however, these restraints are too mild to be a threat to business activity.



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TELEPHONING FROM AUTOMOBILES, TRUCKS, BOATS The mobile telephone resembles an ordinary telephone, except that it contains a "push-to-talk" button. Conversations may travel part way by radio and part way by telephone line. Bell telephone companies can supply either complete mobile service, or furnish and maintain equipment for private radio systems.

More and More Telephones Are Going Traveling These Days

Bell System mobile telephone service — a big time and money saver — is growing rapidly.

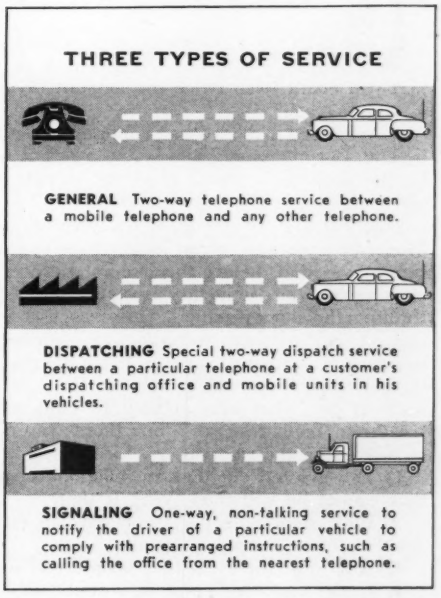
This service is now available in 210 areas in the United States, including most cities of over 150,000 and many smaller places.

Traveling telephones are necessities to many lines of business having vehicles on the road and to professional people.

Often mobile service is the *only* way to reach quickly a moving car, truck or boat. And from a mobile telephone you can talk with your own dispatcher's office or with any other telephone anywhere.

Mobile telephones cut labor and vehicle-operating costs for many types of business. Bell System customers receive these advantages without capital outlay, equipment obsolescence or maintenance problems.

This modern convenience is another example of how the telephone is being made useful to more and more people.


THREE TYPES OF SERVICE
GENERAL Two-way telephone service between a mobile telephone and any other telephone.
DISPATCHING Special two-way dispatch service between a particular telephone at a customer's dispatching office and mobile units in his vehicles.
SIGNALING One-way, non-talking service to notify the driver of a particular vehicle to comply with prearranged instructions, such as calling the office from the nearest telephone.

Bell Telephone System

"DON'T BE AFRAID OF PROSPERITY"

Exclusive interview with Chairman Martin of Federal Reserve Board

[Continued from page 61]

increase in U. S. gold holdings from gold imports or domestic mining tends to increase the money supply, while an outflow of gold from this country tends to decrease it. So one of the important elements in our money supply is the inflow or outflow of gold.

Q Has the U. S. gold supply been relatively stable in recent years?

A It's been relatively stable in recent years. There was a marked outflow for a while, but since the Treasury-Federal Reserve accord in March, 1951, the gold inflow and outflow has been fairly modest.

Q Is it important to keep it stable?

A It's important to keep it so that people retain confidence in our money. For instance, it could make a difference if it fluctuated to such a wide degree that it affected confidence.

Q In the wrong direction—

A Yes.

Q But then your power to issue money is based on the amount of gold we have. And we have so much gold now that you could issue twice the amount of money that there is, couldn't you?

A We could, from a legal standpoint. We have that power by law. But in "issuing money," as you put it, we are guided by the economy's actual need for money rather than how much expansion the law would allow. The question today is practical and economic, not a theoretical matter of law. The reason we were given legal power to expand the money supply was that, before the Federal Reserve Act, basic deficiencies in our monetary system had become apparent through the money panics. One was that currency did not expand and contract according to business needs. In fact, currency was freely available when there was no need for it, and when there was great need for it, currency was very hard to get. That also applied to bank reserves. We had "scattered bank reserves," but there was no adequate way of mobilizing the reserves.

Q You pointed out that an inflationary spiral creates jobs that cannot be sustained. Why is that?

A Well, sometimes because there's an excess of money in relation to the supply of goods.

Q And your theory is that people will use the money?

A Under rare conditions, they might not—temporarily. But ordinarily, or taking a long-enough time span, people will unquestionably use the money when it's available and prices will go up, generally when the flow of spending outstrips the flow of goods and services.

Q People didn't do that in the '30s, when a great amount of money was created. The people just didn't use it—

A Well, we would have to broaden this discussion considerably to analyze that. But you are making a good point: The money supply is only one factor. I think we realize clearly that there are limitations to what money and credit can do in the picture. They are indispensable ingredients of a stable and a growing economy, but not a miracle weapon. Money and credit cannot create demand. People will not borrow money when they don't see an opportunity to make a profit on it or to use it constructively in raising their standards of consumption.

Q But in the present period they seem to want to borrow?

A In recent times we've had both sides of it. We've had a period when clearly there was a tendency toward inflationary pressures and rising prices—and one reason we're against inflation is that it leads to deflation.

Q And we don't like deflation—

A We don't like deflation. And we're opposed to deflation for good reason. Our deflationary purges in the past have been very painful. But the seeds of deflation are always sown in the periods of inflation. Now, we had 11½ months, roughly, of declining business activity beginning about mid-1953. And it's my considered view that a major element in that decline was the waste and extravagance and inefficiency and incompetence that came out of the preceding period of inflationary expansion.

Q Inflation is bad in itself, too, isn't it?

A It is, indeed. Because the main feature is a demand based on credit expansion without a corresponding expansion in the supply of goods. What we are seeking is sustainable prosperity.

Q When you speak of "we," do you mean the Federal Reserve Board or the Government as a whole?

A It applies to the Government as a whole, but I'm speaking particularly about the Federal Reserve section of it, which is money and credit. We have a responsibility for seeing that money and credit is co-ordinated with the other Government activities.

WHEN A DEFICIT HURTS—

Q Can your work be frustrated by failure in other departments of the Government to do certain things?

A It can certainly be made much more difficult. A large and growing, constantly expanding deficit places a great deal of burden on us to help the Treasury in financing the deficit. In an inflationary period, when monetary policy is directed toward credit restraint, a Treasury need to borrow additional money can create some real problems.

Q Do you have any obligation to help them finance the deficit?

A We do.

Q How do you derive that duty?

A Well, because we are a part of the Government, and because we have a duty to prevent financial panics—and a panic would surely follow if the Government, which represents the people as a whole, could not pay its bills. The Treasury and the Federal Reserve have to work together. Now, we have no obligation to finance the Government at just any rate, arbitrarily chosen. But we do have the obligation to see that the Government can get the money needed to pay for the expenditures which are authorized by the Con-

gress. And it would be, to say the least, exceeding our authority if we should try to take over the appropriations machinery of the Congress and say that because we didn't think the Congress was acting properly in authorizing these expenditures, we wouldn't help the Treasury finance them.

Q Then the Treasury will never run out of money as long as you are around—as long as there is a Federal Reserve System?

A You can't discuss the matter in such terms. When Congress has the ultimate power over what the Government may spend and the ultimate power to create money, there isn't any point in talking about the Government "running out of money"—whether or not there is a Federal Reserve System. The practical question is not about power—the Constitution settles that—it is about a sense of responsibility.

Q Aren't you really creating conditions—you're not financing the Treasury people—creating the conditions which will permit financing?

A That is correct.

HOW TO CREATE MONEY—

Q Well, how do you create money?

A The simplest answer, probably, is to say that we can issue currency—Federal Reserve notes—so long as we have the gold backing for them that we talked about earlier, and since we can do that, we can of course issue our check—which is simply more convenient, in most cases. Now, to get that currency or check out into the economy, we can purchase Government securities. The payment we make for them, whether in currency or by check, gets the money out.

Q The Federal Reserve Banks can give checks on themselves?

A Yes. If someone sells us a Government security, he takes the check we give him in payment and puts it in his bank, adding to his bank account. His bank forwards the check to the Federal Reserve Bank and has the amount credited to the reserve account it maintains with the Federal Reserve Bank. So our purchase of the Government security has put "new money" into the economy—created dollars, so to speak.

Q But there is a difference about the dollars you create—

A Yes, in economic impact, though not in form or appearance. These are "high-powered" dollars that we create, because, under our fractional-reserve banking system and at the present level of reserve requirements, for each dollar that's created by us in that way there can be an expansion of bank credit by about six times that amount, roughly. So that a billion dollars of Federal Reserve credit created by our action permits bank credit to expand as much as 6 billion dollars—as a theoretical maximum, though the expansion in fact may be much less.

Q You mean that the banks can loan that much additional?

A Yes, 6 billion more than they could have loaned before we created that 1 billion.

Q Why is that six times? The turnover is that?

A No, I'm talking about amounts right now, and not counting turnover. I don't want to bother you with a detailed explanation—that's available in textbooks or in a booklet we put out called "Purposes and Functions of the Federal Reserve System"—but the 6-to-1 figure comes about this way: Since most money transactions—especially the ones involving large sums—are conducted by check rather than cash, the banking system can lend more dollars than it has on hand at any particular time. Borrowers, generally, prefer to have the amount credited to their accounts, so they can write checks on it, instead of taking the loan in cash. But the amount banks can lend this way is limited by a legal requirement that they put a percentage of their total deposits into "cash reserves."

Banks that are members of the Federal Reserve System now have to have in reserves about 16½ per cent—taking the average—of the amount credited on their books to the checking accounts of their customers. That means they must have about $1 in reserves for $6 in deposits. Or, putting it the other way around, for each dollar they have in reserves they can have $6 in deposits, and the deposits could be created by loans. Of course, I have oversimplified it here.

Q But the percentage of reserves required against deposits is not the same for all your member banks?

A No. On demand deposits, in the two central-reserve cities of New York and Chicago, the reserve requirement is now 20 per cent. For the reserve-city banks, it's 18 per cent. For the so-called "country banks," it's 12 per cent. In saying 16½ per cent a while ago, I was just lumping them together for an average.

Q You said that, when banks make a loan, they add that amount of money to their deposits?

A That's correct. Except where the borrower asks for cash, the lending bank simply credits the amount of the loan to the borrower's deposit account, so he can write checks against it.

Q So that, when we talk about credit, we're talking also about bank deposits?

A That's correct. The two are linked together in the way we've been talking about.

Q And when you in the Federal Reserve create credit, that makes more money available to the banks to lend?

A That's right.

WHAT SOUND MONEY IS—

Q What assumption have you that there's anybody there who wants to borrow?

A Well, we would know what the demand-and-supply situation was before we acted, and would take it into account. If there is not a legitimate demand for money, you just can't create the demand by creating money—though lower cost and easier availability of loans does in itself tend to stimulate borrowing.

We mustn't exaggerate the importance of money and credit. Money and credit constitute just one of the factors in production. There are many other things to be considered: We have to have raw materials and we have to have merchandising and we have to have all the other factors that go into business production. Still, that production won't go well without favorable money and credit conditions. By "favorable," I don't mean excess or loose—it's important that we have a money and a currency which is not only a sound medium of exchange and a standard of value but also is a "stored value," so that you can save it now with confidence that it will buy as much later on as it would buy if you spent it now. Because

(Continued on next page)

. . . "With a glut of money, a tendency to riskier loans"

if it is not a "stored value," the whole process of saving and investment becomes disrupted. That's what we're seeking when we talk about a "sound" currency.

Q The Government isn't entirely passive, though, in trying to push money out even in times when people aren't too anxious to take it, is it? Certainly not when the Government is running a debt. With bank reserves piling up, the higher you pile them the more pressure there is to get them out into use, isn't there? When the reserves you supply to banks do become in great excess, the banker himself is trying to push more out because he wants earning assets—

A Oh, yes. He's acting there as a merchandiser, just as an automobile salesman is.

Q He has something on his shelf and he wants to move it—

A Exactly. Now, if we stock his shelves so high that he has a glut of money, there will be a tendency toward the deterioration of the quality of credit—a tendency to make riskier and more doubtful loans in order to get interest from money that would otherwise be idle.

Q He may cut the price of that money to move it?

A The price will be cut automatically by the law of supply and demand.

Q But is that true in all situations? Bank loans to business didn't get much cheaper during that whole 18 months—

A Well, they got cheaper than you may realize. But banks do have what I call an "administered rate," just as the automobile companies and everyone else with something to merchandise has an "administered price"—that is, a price that they try to hold as long as they possibly can. Now, when we talk about these rates statistically you must remember that we don't see anywhere among lenders any rate cutting of the sort reflected in the discount houses' prices on goods, and lender competition may show up in longer repayment times instead of lower rates. We did have a reduction by the banks in the "prime rate" on business loans form 3¼ to 3 per cent, and if the demand for credit had not begun to pick up, as it has recently with the improvement in business conditions, the pressure would have been inexorable there, and the rate would have tended lower.

Q Maybe there've been some cut prices along the way, anyway—

A There probably have been. In certain areas there's no question about it.

Q If there isn't any demand for loans when you're trying to push money out, can't you always expand bank reserves, and can't the Treasury then sell the banks Government securities and get money into action that way, to a degree?

A Well, the money wouldn't "get into action" unless and until the Government spent it—so you would begin with the spending plan and end with the borrowing, instead of the other way around. But don't forget that you would have to refund at some point the Treasury debt run up by selling those securities.

Q But if you're running a deficit, you can get money into action that way, can't you?

A Yes, by spending it. You can force it into action just to the breaking point, where it no longer produces results.

Q One way you can make it easier to borrow is to create money. What other ways do you have?

A Well, we can supply money through discounts. We're authorized to lend money directly to banks in that way.

Q You mean banks can come to you—

A Any member bank can come to the Federal Reserve Banks and borrow reserves directly from us by discounting—that is, by putting up collateral.

Q What is the charge?

A We charge them a rate for that service which has varied but which generally is in line with the short-term money rates.

Q What is it now?

A Today it is 1½ per cent. But in the open market the bank can borrow at a lower rate than that.

Q Then he can lend that for whatever he can get for it—

A That's right as to borrowing in the open market. Generally speaking, however, our discounts are short-term loans to help a bank through a temporary strain like a sudden withdrawal of deposits by its customers, or seasonal credit needs by its customers beyond what the bank can reasonably meet by using its own resources. A banker feels freer about lending when he knows he can borrow from us in turn if he gets in a pinch. But we don't make discounts to banks just so they can make a profit by relending at a higher rate.

—USN&WR

SHOPPERS: ". . . the important factor of human psychology"

There are really three ways the banker can get reserves. He can sell assets such as short-term Government securities which he holds for secondary-reserve purposes. This draws reserves from other banks. He can borrow excess reserves of other banks through the federal funds market. Then, we have the discount system, under which any bank can go to its district Federal Reserve Bank and request accommodation on acceptable collateral such as Government bonds and can receive reserves—

Q At 1½ per cent interest payments?

A At 1½ per cent, at present. That is, it's the prevailing Federal Reserve Bank discount rate.

Q And banks can loan up to six times the amount they borrow that way?

. . . "Supply of money has increased considerably recently"

A Well, the banking system as a whole, but not member banks that discount. They don't ordinarily try to make a profit on rate differentials. Member banks ordinarily borrow not to loan, but to make up deficiencies in reserve positions because of cash withdrawals, in other words, because of previous lending. When they do borrow they naturally seek to repay the borrowing as soon as they feasibly can. Or, if we want to provide reserves that they don't have to return to us, we can go to the "open market," as we call it, and purchase Government securities. And the payments we make will go into bank reserves. Of course, if we want to "absorb" reserves instead of expanding them, we sell Government securities, and the payment we get for them will reduce bank reserves, and thus reduce the banks' ability to lend.

Q And the third way you can increase the banks' ability to lend?

A We can lower reserve requirements, as we have done in each of the last two years.

Q What is the impact of that?

A It reduces the amount of reserves that the banks are legally compelled to carry with us, and thus releases funds to them to use for loans. Now, at the end of June, 1953, and at the end of June, 1954, we made reductions in reserve requirements in each year of nearly 1.5 billion dollars. That's about 3 billion together.

But part of this addition to bank reserves was temporarily offset in another way. We absorbed during last summer a portion of the amount that we had released by reducing reserve requirements. We absorbed that portion through selling securities on the open market. So we didn't have a "sloppy" condition in money and credit, which we think we would have had if we had just let the money released by reducing reserve requirements lie around as a huge net addition to funds for the banks to lend.

Now, changing reserve requirements is not as flexible a means of affecting credit conditions as operating on the open market, where we can buy and sell every day. If we make a change in reserve requirements, and it's announced tomorrow, let us say, then it's not an easy matter, after the banks have figured out arrangements to meet the new situation and we've sent notices out all over the country, to turn around next week and change these requirements.

Q That's a kind of sledge-hammer treatment, isn't it?

A Yes, it's a blunt instrument. I have referred to the combination of two credit-affecting instruments that we used last summer as "the hammer and the anvil" system of fashioning reserves to a desired level. We changed the anvil—the reserve requirements—and then we beat out the level that we wanted through the hammer.

Q Roughly, how much money is there on deposit in the banks now?

A I'd say demand deposits are around 120 billions.

Q One hundred twenty billion dollars of somebody's money that's in the bank? So that, when you create credit, you are really lending against the 120 billion dollars?

A Well, the 120 billion dollars is there and it can be drawn on at any time by the owners of those deposits—

Q But the banks are lending against those deposits when they make loans without your assistance? They are lending a portion of the 120 billions—

A No. The deposit figure reflects their loans. The loans of the banks are reflected in that total. A man can get a deposit either by putting in cash and checks or by borrowing funds and having them credited to his deposit account.

Q But the banks' ability to lend is determined by their reserves—

A That's right. The reserves become the key under our system.

Q You can add to the segment that can be loaned? You can provide reserves to the banks so that the 120 billions can be increased?

A That's right. Or we could reduce reserves so that the figure would be decreased.

Q And right now are they rather stable?

A Well, we've been trying to keep them in line with the needs of the country.

Q Has the supply of money been stable for several months?

A The supply of money has increased considerably in recent months.

—Standard Oil Co. (N.J.)

THE STOCK EXCHANGE: "Fundamental factors of business . . . determine prices"

Now, that brings us to another responsibility that I think the System has, which is the responsibility for adequacy of the money supply in terms of growth in the economy, normal growth. That has been misunderstood frequently, because some people think that any growth in the money supply is built-in inflation. It isn't if it's properly measured. Of course, the proper amount of growth is difficult to measure, because the velocity of money, as well as the quantity of money, is an important factor. That is, if money's turning over rapidly, a small quantity will do just as much as a larger quantity that does not turn over rapidly. A $1 bill that changes hands 10 times does as much as a $10 bill that changes hands only once.

Q You can't control that velocity?

A We can't control it directly. Obviously, our policies in terms of availability and cost of credit have some influence

(Continued on next page)

. . . "We have to guard against sudden drain of reserves"

on it. I'd like to state that I don't think that any of us, perhaps, can foresee all of the facets of money and its ramifications, because it is human nature that we're dealing with. We do know that there are certain general principles that apply to monetary operations, but when you're dealing with the variant of human nature you just can't expect a monetary move to act precisely as you'd like to have it act. For instance, when you try to figure what quantity of money would be right, you have to take into consideration how fast people will turn it over—how fast they'll spend it. But you can never be certain about that, because people don't always behave the same way, or behave alike in all places. And this is also a very large country.

Q Doesn't the bulk of that 120 billions stay here all the time?

A Oh, yes. We want to see that there is an adequate flow of money and credit here in this country at all times. Growth of the economy requires growth of the money supply—but how do you calculate how much? As to the economy itself, a figure of 3 or 4 per cent increase per annum has been widely used as a normal increase of growth, and we have tried to add enough to the money supply to fit with actual economic growth. But you can't just say, automatically, the money supply should increase 3 per cent a year.

For example, when we had the decline in business activity, the supply of money increased much less than this. But, since business was declining, that increase came at a time when the economy was contracting instead of growing. So if you're considering relating money growth to economic growth, a modest increase in money during an economic contraction means more money, relative to business use, than would a 3 per cent money growth when business is growing. So you have to measure this thing not by a formula but on the basis of the week-to-week, month-to-month demand-and-supply factors in the money market.

EFFECT OF WORLD TRADE—

Q To what extent does international trade affect the equilibrium here?

A It's a fundamental part of our monetary situation, because, if there's a gold outflow, that means that our reserves are less. When there's a gold inflow, there are more reserves.

Q How can you correct that kind of situation if we keep on exporting?

A You mean the effect of a gold inflow or outflow on bank reserves, and therefore the effect on the domestic credit situation? It depends on what the basic causes are. It may not be desirable to correct it by any Federal Reserve action. If correction is desirable, we can always do that by offsetting that effect through our open-market operations to increase or decrease bank reserves.

If there's a gold inflow which adds to reserves, and we think that's producing inflationary pressures, we can sell Government securities on the open market and offset it. If there's a gold outflow that's producing deflationary pressures, we can buy securities to offset it. Of course, there are times when the gold inflow and outflow should be permitted to exert their normal effect in the money market.

Q Can the issue of Government securities dry up deposits? If people take money from the bank and put it into Government bonds, doesn't it soak up reserves directly? Then don't the banks have to call loans—

A It soaks up reserves directly, as the money is taken out of banks to buy the Government securities. But the reason the Government sold the securities in the first place was to raise money to pay for expenses. And when it makes these payments, the money goes right back into bank reserves. What we have to guard against is a sudden drain of reserves, or a sudden swelling. The problem is to smooth out the flow so we don't have sharp, erratic movements—a shortage of credit one week and an excess the next.

Q What other factors are there that interact upon your credit mechanism? You spoke of the deficit in the Government as one factor. What else is there? World-wide conditions?

A Well, world-wide conditions are always a part of it. But, you see, to go back to the credit mechanism, the Federal Reserve System performs a number of services for the economy that we haven't mentioned before in this discussion. For instance, it provides a means of handling the reserves of member banks, of furnishing currency to member banks when they need it to meet the requirements of their customers, of facilitating the collection of checks all over the country, and of accommodating the supply of money to the requirements of the country in accordance with the tax dates.

When tax payments become heavy, as they have in past years around payment deadlines like March 15, we should help the flow of money. When holidays appear—Fourth of July or Thanksgiving—and more people want to draw out currency to go away on a trip, we must see that the banks have currency on hand to take care of these people's needs. Now, all of those are mechanical operations. These were the chief things envisaged in the original concept of the Federal Reserve System.

A "FREE" MONEY MARKET?—

Q If you can play on the money supply like a fiddle, what is meant by the statement that we now have a "free" money market?

A The concept of a free market is probably one of the most difficult concepts there are for people to understand. We gave up a free money market in the old-fashioned sense when we accepted the Federal Reserve Act, with the authority it provided for affecting the money supply. That is why a good many bankers were apprehensive about the institution of a Federal Reserve System. But this authority is directed toward providing a money supply in harmony with the economy's needs—not for arbitrary juggling of the supply to fix some particular level of interest rates. The American people did not give up, in my judgment, a free money market in the sense that they permitted the Federal Reserve or anybody else to determine by the slide rule what all relationships in money rates should be.

Regulation of the money supply to fit economic needs is one thing, fixing interest rates is another. To fix an artificially low rate, you would have to pump money into the economy in inflationary overdoses; to fix an artificially high rate, you would have to starve the economy for money.

I think we operate most effectively in the atmosphere of a money market that is as free as possible—where we supply reserves and absorb reserves to fit economic needs, as best we can judge them, and we let the arbitrage facilities of the market determine rate relationships.

. . . "Reserve System is coequal with the Treasury"

Q That's why you only buy Treasury bills in the open market, instead of buying Treasury bonds and other long-term securities?

A Yes. Let me say that we do not have unanimous agreement in the Federal Reserve System on that particular method of going about market operations, but the so-called dispute on this point is a dispute over techniques and procedures and not over policy.

Q Then the difference is that, under a nonfree money market, the Government would determine the specific rates on all kinds of credit and different maturities, more or less; under the market that you have now, you just determine the overall rate and the supply of money, but the adjustments with specific rates on different kinds of money instruments are determined freely?

A On different kinds of instruments the adjustments are determined freely, and I think it goes deeper than that. I think it's a difference between what I call "minimum intervention" and "maximum intervention."

Q The freedom is relative, then?

A Freedom is always relative.

Q It's really a flexibility rather than freedom, isn't it?

A It is flexibility, perhaps, but it also is freedom in a very real sense.

POWER: A TEMPTATION—

Q The absence of artificiality is another thing, isn't it—the price supports being pegged by the Government?

A It's exactly what you mean by "an absence of artificiality." I don't think this matter of a free money market is a small matter. If you have enough power and you say you'll just dabble in the market a little bit and make a little adjustment here or there, the tendency is to dabble a whole lot.

Of course, you can make a very good case in theory that it would be desirable to control all the rates, particularly when you want to step on the accelerator and improve business conditions. But you would have to go on the theory that your judgment of the future—on human factors as well as economic factors—would always be perfect. I don't think anyone is that perfect. I'm not, I know, and neither is anyone in the Federal Reserve. We don't have superhumans who are all-wise. Speaking only for myself, I say that it's utterly impractical when you're talking about a free market to operate on the discretionary basis of fixing rates and rate relationships across the board, for all types of securities. I think you do better to let the rates and rate relationships be determined by the play of a demand upon supply as shown in the market in reflection of the composite judgment of all involved.

Q How many banks are members of the Federal Reserve System—about 7,000?

A Almost 7,000.

Q Aren't there about that many more that are not in the Federal Reserve System?

A That's right.

Q Can the Federal Reserve System, then, do a complete job on money and credit so long as only half of the banks in the country are in the System?

A Well, all national banks have to belong to the System, and 85 to 87 per cent of the country's banking assets are in banks that are members of the Federal Reserve System. Now, I wouldn't want to upset the dual banking system of State and national banks. I wouldn't want to say that it's essential that every bank be a member of the System. I would hope that we would ultimately do such a good job that all the banks will want to belong.

Q Well, of course, there are many credit facilities outside the Federal Reserve System, including many of the banks. Do we need to re-examine this whole credit system to see whether it should be more inclusive than it is?

A I don't think that there's any urgency about that at the moment, but, as I have said, changes are occurring and there may come a time when something may need to be done about it.

Q You control the money supply regardless?

A We have a strong effect on it—"control" may be too strong.

Q You said a while ago that you want to co-ordinate your activities and policies with those of other departments of the Government. What would your approach to the matter be if you disagreed with them fundamentally on whether we need at any time a "hard" or "soft" money situation?

A Let's put it this way: We talk about the independence of the Federal Reserve System. It's independent within the Government but not from the Government. It is coequal with the Treasury—not superior, and not subordinate to the Treasury.

Q What about the Supreme Court concept?

A I think the Supreme Court's different. The Supreme Court was established by the Constitution.

WHEN THEY DISAGREED—

Q They have called the Federal Reserve the "Supreme Court of money." Suppose you disagreed fundamentally and couldn't convince each other, you would have two choices. You could each go separate ways—

A I am trying to develop that, for I went through one period when we did disagree. You have to hammer it out around a table. Under the present law as now constituted, neither can force the other to do its bidding. That means, I think, that you will get an adjustment. We got such an adjustment in the Treasury-Federal Reserve accord.

Senator Douglas [Paul H. Douglas, Illinois Democrat] stated a number of times that we should have a mandate specifying clearly what is the role of debt management, and what is the role of money and credit policy. He said, "Good fences make good neighbors." I agree that good fences make good neighbors, but the nature of this problem is such that you need a revolving door in the fence so that both of us can go through it, because adjustments have to be made from time to time.

It isn't a problem where you can be precise. It depends upon the circumstances. There are times when debt management and monetary and credit policy virtually merge. There are other times when they are perfectly distinct.

Now, we have a clear working relationship with the Treasury today on the basis of equals. We recognize that the Treasury has the primary responsibility of managing the debt and the Federal Reserve has the primary responsibility of money and credit, and, recognizing those primary responsibilities, we sit around the table and endeavor to work it out.

Now, you ask me: How do you work it out? You'll find that since the Treasury-Federal Reserve accord, which was in 1951, prior to this Administration, I have spent at least two days a week of my time, and my staff's time similarly,

(Continued on next page)

. . . "I don't think we can control the credit of this country"

with Treasury people going over our problems. At the present time, I meet every Monday with Secretary Humphrey and his people, and a group of them come over and visit with us practically every Wednesday.

Q When you proceed like this, that's fine. But what happens when you don't? Does the White House have to settle it eventually?

A The White House can't. That's just the point I'm making. Under the present law, even if the White House should bring all the pressure in the world to bear, the law gives us the authority so that we can act as we believe necessary.

Q You are a creature of Congress basically, aren't you?

A We're a creature of Congress.

Q Then if there is a fundamental difference, you just go in two ways and follow policies that don't meet?

A But you would have to recognize that if you were to go in those two ways you would stand at the bar of public opinion, and your trust indenture might be changed by the Congress.

WHOSE RESERVE BANKS?—

Q Technically, aren't you a quasi-Government organization? Aren't the Federal Reserve Banks owned in large part by member banks?

A I'll put it this way: The Federal Reserve Board to me is clearly a part of the Government. All the members of the Board are appointed by the President and confirmed by the Senate. As to the 12 Federal Reserve banks and their 24 branches, they are quasi-private, not quasi-public, in this sense. Each of the regional banks has a nine-man board of directors. Six of the nine directors are elected by the member banks. Three of the nine directors are appointed by the Federal Reserve Board. The member banks own stock in their respective Reserve banks. The stock which they own is not proprietorship, but a device for their participating in the organization of those banks. If the Reserve banks should ever be dissolved, their surplus would go to the Government.

Now, the historical evolution of this is very clear. In the early days of the republic, the public was so afraid of letting the money power get into political hands that in the first Bank of the United States it was very difficult even to get a few directors appointed by the Government, and there was a long debate as to whether Secretary of the Treasury Hamilton would be permitted to see the statement of that bank. When we came to the managed-currency point in the Federal Reserve Act, then, instead of having a single bank with many branches, as most foreign central banks do, we set up a system peculiarly adapted to the American system—a regional system. It was set up as the judiciary is, to free the Board and the Reserve Banks, so far as possible, from partisan pressures, whether public or private.

Q Regarding the relationship between the Treasury and Federal Reserve, isn't it possible that sometimes one will dominate the other?

A I cannot deny that. But that's within their prerogative. A meeting of minds has to be accomplished by persuasion, not by law. There is quite a difference. It may be that one or the other is the stronger personality and will dominate in that sense.

Let's go back to the period when there was some disagreement between the Treasury and the Federal Reserve. I was in the Treasury at that time. If the law had permitted the Treasury to settle the disagreement with an order, then there wouldn't have been any dispute, so to speak, though there might have been a few outcries of pain. But the law doesn't permit that. As I said, the settlement of a difference would have to be by persuasion. So, the only dominance of the one over the other would have to come about by the power of persuasion.

Q How does what you describe differ from the academic concept of a managed economy or planned economy and how does it reconcile itself with a free system, when you can sit in the Federal Reserve Board and control the credit of this country?

A You must have misunderstood my remarks. I don't think we can "control" the credit of this country. That is shown, or at least implied, in this free-market concept I talked about. Also, the background of the Federal Reserve Act is clearly one that accepts private property, free competitive enterprise, and the profit motive as fundamental concepts in our system. I think that any modifications that may be made in those concepts should only be around the principle of the greatest good for the greatest number, and that our economic system should continue operating through the open market place, rather than through dictated prices, rates, and so on.

Now, at some point, I frequently say, economics becomes theology—you have to introduce the element of faith. I haven't the slightest question whatsoever that we will do all right if we adhere to these basic principles and such modifications as are made are along those lines. In the background, in the heritage of the American people, is a conviction that, with the exception of periods of war, the judgments of a free and properly functioning market place will be superior to judgments of any public official or any Federal Reserve Board or the board of directors of any given company. I have faith that in these fundamentals we have the ingredients of what I see as the American way of life, a way of life that will produce a higher standard of living than any of the economies where all the facets of the economy are managed. We've got too big an economy, too diverse an economy, to manage it in that sense, anyhow.

"GRASS ROOTS" POLICY—

Q Then, to a degree you are interpreting the market judgments and co-ordinating those judgments—

A Yes. A lot of people don't understand this statement that I have made frequently—and it may be subject to misunderstanding—but I honestly believe that the money and credit policy of this country still comes from the grass roots. It comes from the grass roots up and not from the top down. In a managed economy, it would come from the top down.

What I mean by that is that the little towns and hamlets throughout the country, when money and credit becomes vital to them, begin to put to work pressures—that is, manifestations of need—that come here and are brought to bear upon the thinking of the Treasury and the Federal Reserve in shaping policy, instead of it working out the other way, with Washington doing all the thinking in a vacuum and issuing orders. I don't believe the people would permit that, and I'm glad that they wouldn't.

I've gone through a period of 10 years here in Washington and heard a good deal of talk about how interest rates don't make any difference and exchange rates don't make any difference—that we control them anyway. Well,

you cannot get away from the law of supply and demand any more than you can get away from the law of gravity. The most you can do is to alter its course, to change the direction in which it moves. But even for that you pay a price, every time.

Some of my friends in Congress would like to have me say that I think the Federal Reserve can set any interest rate it wants and keep it. I just don't believe that the Federal Reserve System, or the Treasury, can ignore the market place in this country without paying a price for it that will become so great that this grass-roots force will bring itself to bear.

Now, I say, witness the purchasing power of the dollar. There may be very few people who understand the fine points or technical details of monetary policy, but the people in this country do understand that money should be our servant, not our master, and they don't want phony money. They don't want the Bureau of Engraving and Printing turning out dollar bills to maintain a given interest rate, however attractive it may be to some people.

Q But the dollar's been cut more than in half in the past 10, 15 years, and they've accepted it—

A They "accepted" it only through the exigency of war. And I don't think they "accepted" it.

Q Didn't this come after the war?

A Oh, no. Not the monetary inflation. That was almost entirely part of the war.

Q But the price rise itself came after the war when they took the controls off—

A Yes, the monetary inflation was concealed for a time by controls, such as price controls, but controls like that can only hide inflation for a time—they can't prevent it.

Q When you took the controls off, the dollar went down—

A When the controls were taken off, the latent inflation was already there. What happened when the controls came off wasn't new inflation. It was the manifestation of the inflation in money that had built up earlier behind the screen of controls. You take the point of balancing the budget: We had a budget surplus—which is anti-inflationary, of course—right at the time prices were rising after the war. I was in the Treasury all during the time when we were running a surplus, and it used to bother me a great deal to think about the inflation potential that had built up earlier, even though, on the budget basis, the Treasury was then doing very well—if you're talking about a surplus. But we still had a problem then of 60 billion dollars of latent inflation that had come into existence through budget deficits that had been run up in the war.

Q Would the business volume of this country be related to the improvements in communications?

A The business volume, yes, but not necessarily the turnover of money. I just don't think we know enough about the flow of money yet to have a very good conclusion from it. We still have this geographic idea of reserves.

I honestly think that, if we can work it out satisfactorily, it would be much better to have our reserve requirements today based on the type of deposits—that is, demand deposits, interbank deposits, time deposits—than on the basis of geographical location of banks in New York or Chicago and so on.

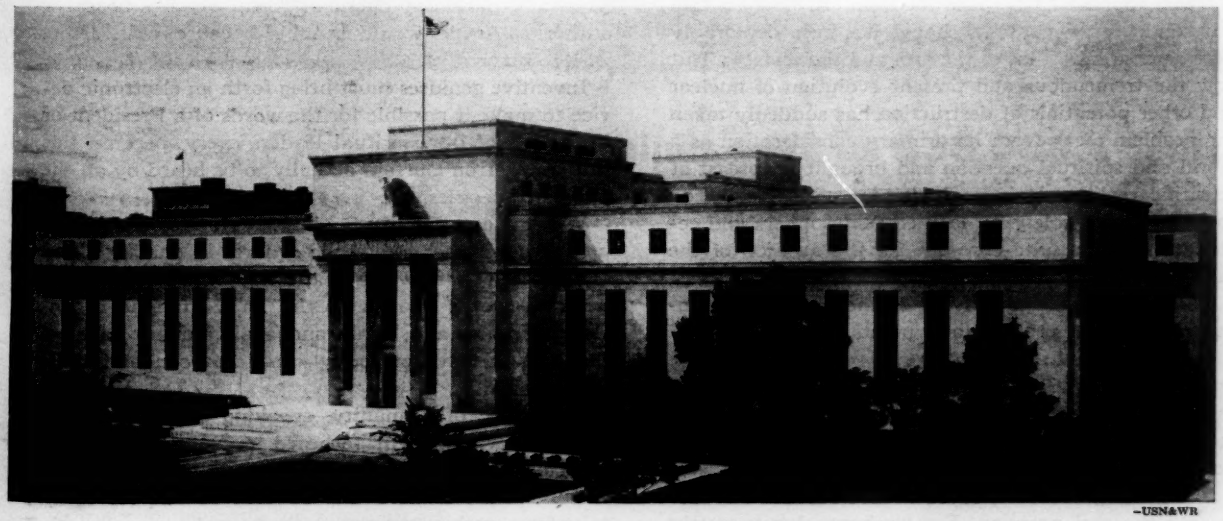
Q Is there some research going on in that?

A Yes. We're working on it. If I were asked the most difficult problem I've wrestled with since my tenure in the Federal Reserve, I'd say reserve requirements. It isn't easy in a country as large as this, with the many thousands of banks, to get people together on it.

I don't make any secret of this and so do not mind saying it. I haven't been able to get my own people together on this. But we're working hard, and we will be able to work something out. But at the moment I would have to be truthful and say that I can't even guess the result.

Q Didn't the Federal Reserve once recommend to Congress a change in that?

A It did, and it got lost because there were some disagreements among the various sectors of the private banking system. I'm not criticizing them for it.



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THE FEDERAL RESERVE SYSTEM: "What we are seeking is sustainable prosperity"

YES, WE CAN ABOLISH WAR!

BY DAVID LAWRENCE

GENERAL MACARTHUR says war must be abolished. Here is a great soldier speaking, a veteran of three wars, a hero who won the adulation of his people for military achievement but who, ironically enough, became the main target of the European press as a "warmonger" because Communist propaganda falsely portrayed him as wanting to send American troops to the Chinese mainland.

What paradox is this which brings from the lips of a military man of such wide experience the most stirring plea for the abolition of war that has been heard in our times?

What fantastic suggestion, what dream of impracticality is this, ask the skeptics, as they fling at him the facts of practicality in an age of aggression.

But the idea is not to be rejected so readily. It is neither fantastic nor impractical. It is real and it is practical. It is the livest issue of our day—if we will but examine it as carefully as we do the power of a new bomb of destruction.

For here is a concept that challenges the imagination of man. It is intangible now, yet it is something the human mind can make tangible whenever there is a determined effort to do so.

Let us examine the words of General MacArthur as he spoke at Los Angeles on January 26 last on the occasion of his 75th birthday:

"It is a sad truth that human character has never reached the theological development which would permit the application of pure idealism. In the last two thousand years its rate of change has been deplorably slow compared to that of the arts and the sciences. But now the tremendous and present evolution of nuclear and other potentials of destruction has suddenly taken the problem away from its primary consideration as a moral and spiritual question and brought it abreast of scientific realism. It is no longer an ethical equation to be pondered solely by learned philosophers and ecclesiastics but a hard-core one for the decision of the masses whose survival is the issue."

That phrase—"the decision of the masses"—epitomizes the whole problem and points to its solution.

But how? Where is the blueprint? Where is the mechanism that can accomplish this worthy object? Have not men always preached the doctrines of peace? And have not wars come anyhow?

True enough, we have asked but we have never answered the real question. For we have always sought the solution through governments—when it is the governments themselves which have assumed the power to impose slavery and by their discipline to create armies.

Governments, of course, can be the honest servants and spokesmen of free peoples, but too often they are the masters of enslaved peoples. The problem is to find a way to divest rulers of their despotic power.

We shall not make peace by attending conferences or writing treaties with cliques of evil men. We cannot win them by exhortation. We can unhorse them only by reaching to the sources of their power. Anything which enhances the prestige of bad rulers helps to deceive and discourage the peoples who have been enslaved.

Our moral power should be strong enough to refrain from all contacts with evil men. The maintenance of our armament is essential only to protect us against the caprice of these evil rulers. This we must make clear to other peoples—that it is their government which threatens the peace of mankind.

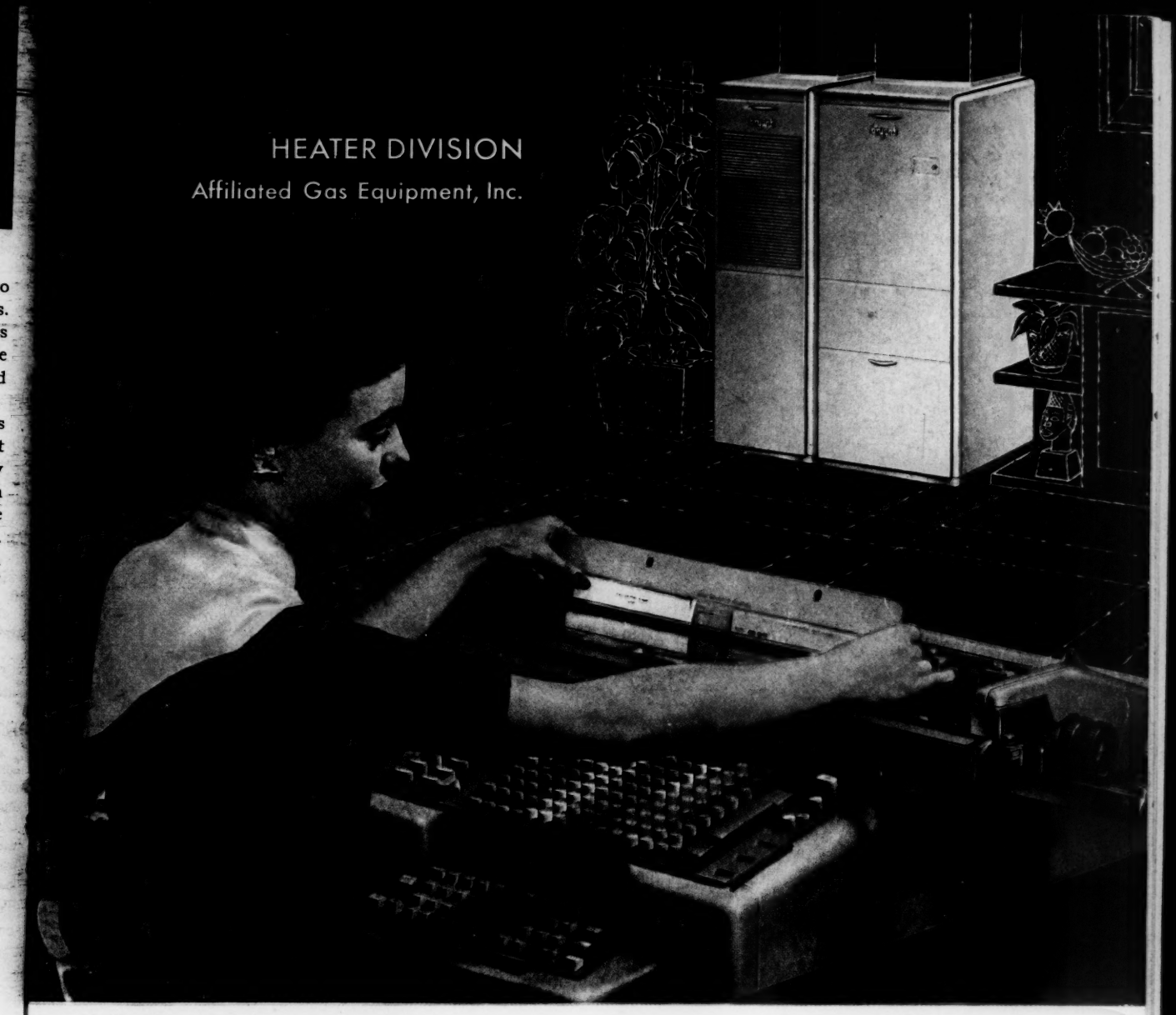
Does anybody doubt that if such a message could reach the people of Soviet Russia and the people of Red China that they would react against war any differently than we do? Of course not. All human beings are instinctively in favor of survival.

Then what are we waiting for? Only for the mechanism to implement the formula whereby peoples talk to peoples, and governments begin to do what peoples want them to do. The 200 million people in Soviet Russia and the 600 million in China can at any moment remove any clique or group which is usurping authority. Armies would crumble, because soldiers, too, wish to survive.

Inventive geniuses must bring forth an electronic device to make it possible for the words of a President or the words of our spiritual leaders everywhere on this side of the Iron Curtain actually to be heard by all the oppressed peoples.

We now can amplify the human voice so that it can be heard across huge public squares in our big cities. We must look forward to the day when science will transmit words spoken in the native tongue of enslaved peoples and, again and again, convey to them the biggest truth of today—that war can and must be abolished.

The voice of humanity, speaking the language of reason, inevitably will be heard in every home in every country. When that happens, tyrants will vanish, because the concerted will of millions of people will take from such rulers the power to make war. Therein lies the salvation of the world.



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